DRUG STORE NEWS

SECOND CLASS

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Tracking private label & store brands in chains

During the year ended Feb. 24, drug store retail dollar volume of private label brands in 52 H&BA product categories combined amounted to $778.4 million, or 9.6 percent of the total volume in these categories. This is more than double their level in food stores, where year-end share in the same categories was 4.4 percent.

The drug store dollar volume contributed by H&BA store brands exceeded $25 million in nine of the product categories tracked by SAMI. Topping the list was $112.7 million for private labels of internal analgesics, followed closely by $104.8 million of synthetic vitamins, which held a 31.2 percent share. Private label accounted for $76.6 million of cold remedies and $47.2 million of cough remedies.

PRODUCT TRACKING
ALAN MILLER

Besides their sales importance in synthetic vitamins, private labels enjoyed an even higher share among natural vitamins, minerals, and supplements, where 52-week sales were $64.7 million.

First aid was another area of strength for price brands, at $32.6 million in antiseptics, and $43.9 million in other first aid products (including bandages, gauze, cotton swabs and the like). Completing the over $25 million list for private label were laxatives and stool softeners ($41.2 million), and external analgesics ($25.7 million).

Evaluating performance

In many instances it is important for either name brand or private label manufacturers to evaluate private label performance at the product class level of measurement. In first aid, for instance, private labels account for 20.3 percent of total category volume but have a share of 66.6 percent of cotton, other than cosmetic balls or swabs. At the same time, store brands account for only $9,000 or 0.3 percent of first aid kits within this first aid products category.

Their penetration level is more evenly distributed in the two classes of baby powders, where they have an annual dollar share of 19.2 percent in the category. This is divided into a share of 19.7 percent for those items without corn starch and 17.5 percent for those with corn starch, but this even trending seems to be the exception rather than the rule.

One of the most dramatic differences in private label importance between classes is found in the synthetic vitamins category. Here the private labels account for 90 percent of the vitamin B1 and B12 volume, but only 19.2 percent of the sales of multi plus mineral items.

There are also wide variations in private label share levels in the laxatives and stool softeners category, ranging from a high of 70.7 percent for citrate of magnesia to a low of zero volume for phosphate of soda.

Quite often private labels have their strength in the product classes with the highest volume. In the subcategory of cream and lotion baby oils within the high-volume baby oil category, for example, private labels account for 32.4 percent.

Baby oils account for 25.9 percent of petroleum jelly movement, which also is one of the highest-volume categories.

Another variable which accounts for the importance or lack of importance might be described as the amount of value-added or specialty features represented.

For a long time, the stick deodorant brands offered were deodorants only. In this product class private labels now have a share of 4.4 percent. However, among stick antiperspirants, which is where the action has been in recent years and which account for nearly 70 percent of category volume, private labels have a share of just 1 percent.

Product classes of H&BA categories with more than $10 million in annual private label drug store volume

(Year ending Feb. 24, 1989)

Product class	Product category	Annual private label volume in product class in millions	Private label share in product class
General cold remedies tablets	cold remedies	$41.1	15.0%
Aspirin compounds	internal analgesics	35.6	20.1
Minerals	natural vitamins, minerals, supplements	26.6	26.9
Cough syrups	cough remedies	26.0	17.0
Ibuprofen	internal analgesics	25.2	16.1
Non-aspirin	internal analgesics	24.9	11.1
[illegible]	natural vitamins, minerals, supplements	23.2	39.5
Multi	synthetic vitamins	22.6	24.7
[illegible]	synthetic vitamins	21.4	63.9
Multi plus mineral	synthetic vitamins	20.3	19.2
[illegible]	first aid antiseptics	19.7	19.1
Vitamin E	synthetic vitamins	17.5	68.2
[illegible]	antacids	16.9	8.0
Liquid general cold remedies	cold remedies	16.8	13.0
Non-fluoride	mouthwash	15.6	8.5
Supplements	natural vitamins, minerals, supplements	14.8	38.2
Soft contact lens solution	eye care products	14.6	4.6
Powder	laxative and stool softeners	14.3	14.5
Alcohol and witch hazel	external analgesics	13.8	73.2
Other (than balls or swabs) cotton	first aid products	13.3	66.6
[illegible]	internal analgesics	12.9	19.8
Cough drops	cough remedies	12.7	17.0
[illegible]	internal analgesics	[illegible]	[illegible]
Pills, tablets, gum mints	laxatives and stool softeners	11.1	6.8
Cotton swabs	first aid products	11.0	[illegible]
Hay fever, tablets	cold remedies	10.9	12.4
[illegible]	first aid products	10.5	17.8
B complex plus C	synthetic vitamins	10.0	26.4

Source: SAMI

Another example of tl phenomenon is found in t category of external anal sics. Private label linimen where there is value-add and advertising of produ features, account for 5.2 p cent of dollars. Howev their share is 73.2 percent the alcohol/witch hazel cla and 81.3 percent in the case epsom salts and boric ac The accompanying table id tifies 28 product classes w $10 million or more in priv label movement. It is head by general cold remedy t lets, which enjoy annual sa of $41.1 million and hav share of 15.0 percent (co pared with a share of 11.9 p cent in the entire cold rem category).

Three of the top 10 proc classes with the highest ume for private labels ar the internal analgesics cat ry, and there are import differences in their share els. Private label brands count for 20.1 percent of drug store sales of asp compounds, 16.1 percen ibuprofen volume, and 11.1 percent among the a non-aspirin entries.

Market fluctuations

One last point concerns ever-important variable volving market-by-ma fluctuations in the streng store brands versus ac tised brands.

Among cold remedies, national private label sha 11.9 percent, but is as lo 4.7 percent in Chicago a high as 20.0 percent in Syracuse market. Among thetic vitamins, where th tional drug store share o vate label items is percent, their share is percent in the Albany/S ectady/Troy market but 8.4 percent in Milwauke

Readers wishing to h report showing private drug store penetration in all 52 H&BA categori obtain one by sending quest on company stati to Warren Spence, vp I marketing, SAMI, 55 G Farms Road, West Conn. 06880.

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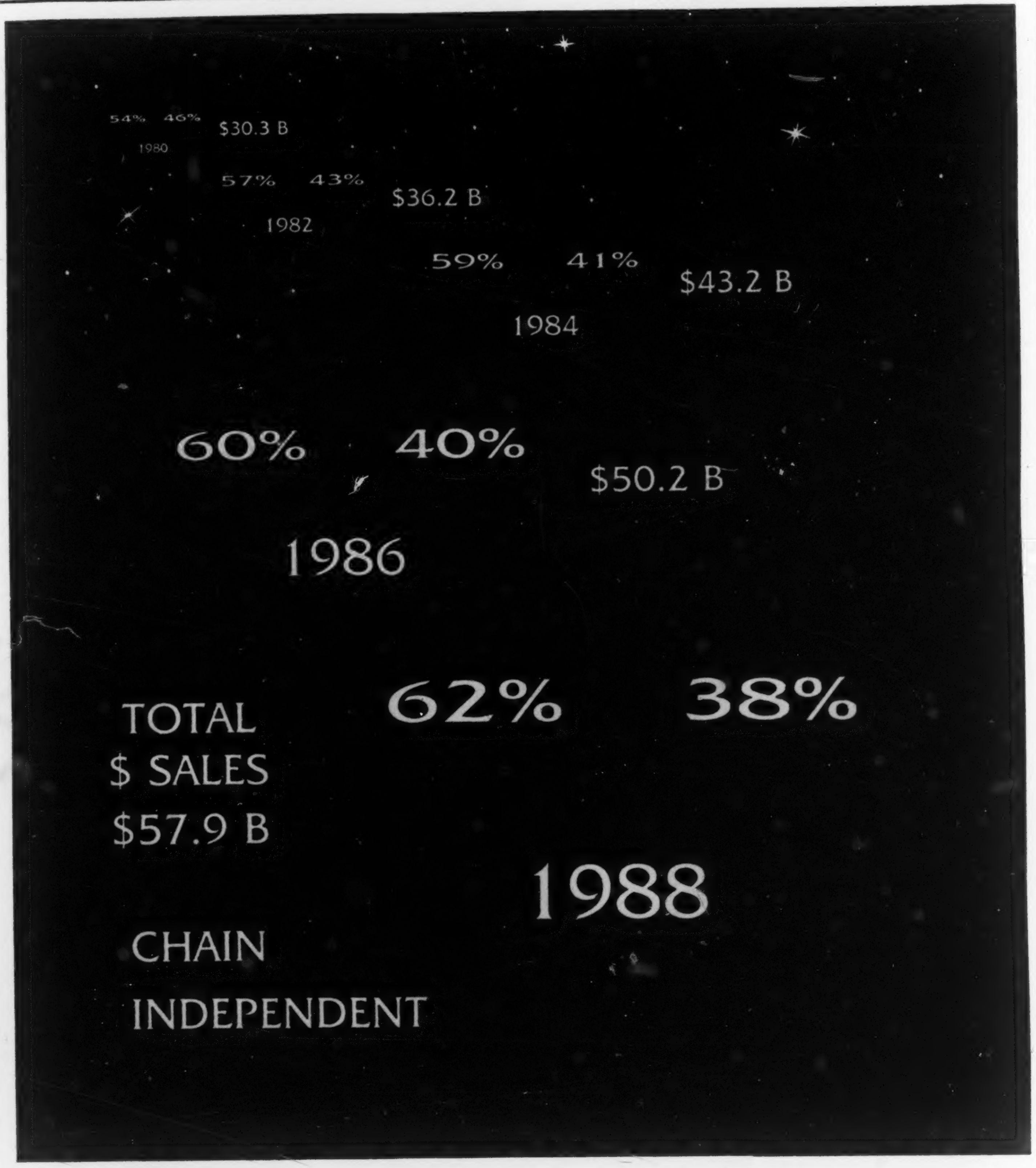

Chain volume up sharply; total sales hit $58B

Continued from page 1

Technology became a main priority of chains in their struggle to retain their competitive edge in locations and pharmacy strength.

Most chains have now completely computerized their pharmacy departments. Now they are turning their attention to the front end, where they are beginning to introduce POS systems capable of tracking individual item movement. The advantages that such systems offer in inventory management and turnover are already being felt at some chains.

Most companies are only at the starting line in scanning, but a handful, like Rite Aid, Pay Less, Thrift, Osco and Revco, have moved ahead rapidly. While Walgreens and Eckerd are less advanced in scanning itself, they have developed their own highly effective item-tracking systems. These systems have allowed them to project chain-wide product movement with a high degree of accuracy.

A few chains are exploring "quick response" methods of electronic communication between retailers and suppliers that promise more timely delivery of goods and even better inventory turnover. Eckerd, for example, has been using electronic data interchange (EDI) with some vendors for two years and is working on improving and expanding the program. And Walgreens is in a pilot EDI program with four vendors.

'88 was 'outstanding' for chain drug industry

It was an outstanding year for the chain drug industry, both in sales growth and investment for the future. But there were other developments during the year that were also notable.

Acquisition activity, for one thing, remained heated, though not of the ferocious intensity seen in past years. There were several large mergers, but no blockbusters. Rite Aid continued to be aggressive, buying 114 former Lane drug stores in the Midwest from Peoples, as Peoples began to slim down to a smaller and more profitable core of stores in its mid-Atlantic heartland.

Rite Aid also won the Kentucky-based Begley chain in a bidding war with SupeRx Corp. of Phoenix. SupeRx then purchased the 90 stores operated by the ailing Medicare-Glaser chain in St. Louis.

Hook-SupeRx Inc., another chain that didn't mind leaping geographic boundaries in its quest for growth, acquired Brooks Drug, a chain of 361 drug and H&BA stores based in Rhode Island. The purchase put the company over the billion-dollar mark in sales.

Thrifty Corp. weighed in with a mega-acquisition of its own, buying Pay 'n Save Corp. of Seattle. The deal brought

Continued on page 67

Top 50 American drug chains: 1988 dollar volume

Rank Company	Headquarters	Drug store sales (in millions)	% change	Store totals	% change	FY end
1. **Walgreens**	Deerfield, IL	$4,752	14.4%	1,416	4.4%	8/31/88
2. **Osco Drug**	Chicago	3,193	4.8	658	2.0	1/28/88
3. **Eckerd**[1]	Clearwater, FL	2,900	5.0	1,580	– 0.1	1/31/89
4. **Rite Aid**	Shiremanstown, PA	2,728E	14.6	2,171	4.8	3/4/89
5. **Thrifty**[2]	Los Angeles	2,400	30.2	806	25.7	11/30/88
6. **Revco**	Twinsburg, OH	2,400	4.3	1,882	– 6.7	6/03/89
7. **Longs**	Walnut Creek, CA	1,925	8.6	236	3.1	1/26/89
8. **CVS**	Woonsocket, RI	1,688	21.0	752	7.7	12/31/88
9. **Peoples**	Alexandria, VA	1,500	7.1	807	2.2	12/31/88
10. **Pay Less NW**	Wilsonville, OR	1,450E	13.3	269	3.9	1/21/89
11. **Hook-SupeRx, Inc.**[3]	Cincinnati	1,280	17.4	1,028	57.2	8/31/88
12. **Thrift**	Pittsburgh	977	11.1	440	8.1	1/28/89
13. **Drug Emporium**[4]	Worthington, OH	880E	10.0	170	24.1	2/28/89
14. **Phar-Mor**	Youngstown, OH	752E	51.6	123	54.0	6/30/88
15. **Perry**	Pontiac, MI	646	12.9	222	0.0	10/31/88
16. **Fay's**	Liverpool, NY	492	3.6	153	– 3.2	1/31/89
17. **F&M**	Warren, MI	462E	40.0	66	26.9	1/31/89
18. **Medicine Shoppe**[5]	St. Louis	386	17.0	755	6.8	9/30/88
19. **K&B**	New Orleans	372	2.2	149	0.7	9/30/88
20. **Genovese**	Melville, NY	366	16.6	90	8.4	2/3/89
21. **Big B**	Bessemer, AL	271	8.8	204	11.5	1/28/89
22. **Pic N' Save**	Jacksonville, FL	265E	6.0	41	0.0	12/31/88
23. **Arbor**	Troy, MI	246	14.4	80	8.1	7/31/88
24. **Fantle's** (Dart)	Landover, MD	218	– 18.0	72	– 15.3	7/31/88
25. **Duane Reade**	Long Island City, NY	215E	7.5	32	6.7	12/31/88
26. **Rockbottom**	Port Washington, NY	200E	31.6	26	4.0	1/31/89
27. **Marc's**	Middleburg, OH	197E	8.2	15	25.0	6/30/88
28. **Super D**[6]	Memphis	160E	– 11.1	102	– 3.8	8/31/88
29. **Kerr**	Raleigh, NC	135	19.5	86	10.3	6/30/88
30. **Discount Drug Mart**	Medina, OH	135	17.4	26	8.3	3/31/89
31. **Snyder**	Minnetonka, MN	130	11.1	62	1.6	7/29/88
32. **Medicare-Glaser**[7]	St. Louis	115E	7.5	86	– 1.1	3/31/89
33. **A.D. Clark**	Los Angeles	115E	4.5	19	0.0	12/31/88
34. **Drug Fair of NJ**	Somerville, NJ	115E	11.7	31	0.0	7/31/88
35. **Harco**	Northport, AL	110E	5.8	77	6.9	7/31/88
36. **SGC Drug Store Div.**	Woodbridge, NJ	105E	5.0	35	9.4	1/29/89
37. **Carl's**	Rome, NY	100E	11.1	48	– 4.0	12/31/88
38. **Taylor**	Louisville, KY	98E	19.5	56	21.7	9/30/88
39. **Thrifty/White**	Minneapolis	93	4.5	56	0.0	4/30/89
40. **SupeRx**[8]	Phoenix, AZ	90E	11.1	59	0.0	2/27/88
41. **LaVerdiere's**	Winslow, ME	87E	– 3.3	59	– 4.8	1/31/89
42. **Medi-Save**[9]	Baton Rouge, LA	86E	6.2	89	15.2	5/31/88
43. **Bill's**	Benecia, CA	76	8.6	25	0.0	4/1/89
44. **Standard**	Richmond, VA	75E	2.7	66	– 1.5	3/31/89
45. **Wellby**	Portland, ME	74	13.8	36	0.0	12/31/88
46. **Kinney Drugs**	Gouverneur, NY	70	11.1	30	7.1	12/31/88
47. **Dot Discount Drugs**	Bentonville, AR	70E	40.0	14	16.7	1/31/89
48. **Douglas**	N. Providence, RI	59E	11.3	15	0.0	3/31/89
49. **Rix Dunnington**	Auburndale, MA	59	7.3	37	– 7.5	1/31/88
50. **Drug Town**	Chariton, IA	57E	14.0	22	0.0	12/31/88

E = estimates

[1] Includes 13 VisionWorks stores
[2] Includes Thrifty, Pay 'n Save and Bi-Mart Discount Stores
[3] Includes 357 Hook stores, 323 SupeRx and 348 Brooks
[4] Includes 69 company-controlled stores and 101 franchise stores
[5] All data based on calendar year
[6] Includes three Ike's deep discount stores
[7] Medicare-Glaser acquired by SupeRx Corp. March 1989
[8] SupeRx Corp. acquired Medicare-Glaser March 1989
[9] Store count includes retail stores only, not institutional pharmacies

Source: *Drug Store News* 1989 Chain Drug Survey

Evolving character of the chain drug industry

Chain store size	No. of companies			No. of stores		
	1978	1988	% change	1978	1988	% change
Two-three-store companies	2,106	1,299	– 38%	4,581	2,961	– 35%
Four-10-store companies	477	393	– 18	2,549	2,112	– 17
11-or-more-store companies	173	127	– 27	12,160	17,747	46
Totals	2,756	1,819	– 34	19,290	22,820	18

Source: Chain Store Guides

Average chain drug store performance

Company	Store size (sq. ft.)	Sell space	Sales per store (000)	Sales per sq. ft. of sell space
Duane Reade	5,000	5,000	$6,719	$1,344
Medicine-Shoppe	1,072	650	512	787
Jean Coutu	7,420	7,420	4,892	659
Shoppers Drug Mart	7,500	6,000	3,850	642
Longs	23,000	15,180	8,159	537
Rockbottom	17,000	16,000	7,692	481
F&M	24,000	17,000	6,091	358
Walgreens	13,700	9,500	3,356	353
Wellby	7,000	6,000	2,056	343
Arbor	10,800	9,300	3,081	331
Drug Emporium	25,000	18,000	5,942	330
Kinney	8,500	7,500	2,333	311
Osco	21,360	16,660	4,853	291
Thayer	6,000	5,800	1,667	287
Fay's	15,000	12,000	3,441	287
Douglas	15,000	13,800	3,947	286
Medic Discount Drug	10,000	9,000	2,500	278
Thrift	10,000	8,000	2,221	278
Discount Drug Mart	22,000	20,000	5,192	260
Rix Dunnington	7,000	6,200	1,596	257
Eckerd	8,640	7,200	1,835	255
Snyder's	10,000	8,914	2,090	234
Taylor	9,000	7,900	1,750	222
Standard	5,600	5,200	1,136	219
Snyder Bros.	10,000	8,500	1,850	218
Rite Aid	6,720	5,800	1,257	217
Pay Less NW	31,000	25,500	5,390	211
Bartell	9,477	7,697	1,613	210
Bill's	18,000	15,000	3,040	203
K&B	14,265	12,563	2,498	199
Peoples	10,800	9,500	1,859	196
May's	10,000	8,000	1,538	192
Revco	8,450	6,776	1,275	188
Kerr	9,600	8,800	1,570	178
Big B	10,000	8,000	1,330	166
Harco	9,800	8,800	1,429	162
Thrifty/White	12,000	10,500	1,669	159

Scurce: *Drug Store News* 1989 Chain Drug Survey

Top Canadian drug chains

Company	Headquarters	Drug store sales, latest FY (millions $ Canadian)	% Change	Store totals	% Change	FY Ended
Shoppers Drug Mart	Toronto	2,356	13.7	612	4.4	12/31/88
Jean Coutu	Longeuil, Que.	680	30.3	139	32.3	3/31/88
Pharma Plus Drugmarts (Formerly Boots)	Etobicoke, Ont.	280*	NA	108	– 38.0	1/28/89
Big V	London, Ont.	230*	NA	103	1.0	9/30/88

* Estimated

Source: *Drug Store News* 1989 Chain Drug Survey

Drug chains show gains in investment, sales growth

Continued from page 65

the Los Angeles-based chain 110 Pay 'n Save stores and 37 Bi-Mart membership discount units.and lofted the company into the number-five spot on the sales chart with a volume of $2.4 billion.

Aside from the deals outlined above, there was a distinct slowing in the aggressive growth of past years.

An exception was the expansion activity in the deep discount arena, where the three top companies, Drug Emporium, Phar-Mor and F&M, vied with one another for top billing as the most aggressive company. The numbers told the story. While both Drug Emporium and F&M had store increases of around 25 percent, Phar-Mor's growth topped 50 percent, a remarkably aggressive number considering the investment required to launch a deep-discount mega-store like Phar-Mor.

But many observers felt the real long-term threat to drug chains was not the deep-discounters but the supermarket combination stores, which threaten to wrest away the drug stores' prime customers with one-stop shopping convenience. That threat, indeed, was where drug chains were focusing their energies as they geared up for the 1990s.

Chain drug store remodeling

Company	1986	1987	1988	% of 1988 total stores
Eckerd	233	286	267	16.9%
Rite Aid	79	146	245	11.3
Revco	NA	100	125	6.6
Peoples	NA	150	100	12.4
Walgreens	89	119	60	4.2
Thrifty	NA	16	37	4.6
Medicine Shoppe	31	23	30	4.0
Big B	15	25	26	12.7
Shoppers Drug Mart	NA	24	22	3.6
Thrift	20	25	14	3.2
Drug Emporium	2	10	8	11.6
Jean Coutu	5	5	8	5.8
F&M	NA	2	6	9.1
Duane Reade	4	4	5	15.6
Rockbottom	5	5	5	19.2
Osco	22	19	5	0.8
Snyder's	6	4	5	8.1
Fay's	NA	3	5	3.3
Genovese	8	5	5	5.6
Pay Less NW	NA	6	4	1.5
Kerr	2	3	4	4.7
K&B	2	3	4	2.7
Taylor	11	4	4	7.1
Thrifty•White	4	3	4	7.1
Medic Drug	NA	2	3	15.0
Harco	6	3	3	3.9
Medi-Save	3	7	3	3.4
Rix Dunnington	5	4	3	8.1
Discount Drug Mart	2	2	3	11.5
Bartell	NA	1	2	6.5
Thayer	NA	3	2	6.7
Bill's	NA	NA	2	8.0
Wellby	4	3	2	5.6
May's	NA	2	2	7.7
Kinney	2	2	2	6.7
Douglas	NA	1	1	6.7

Source: *Drug Store News* 1989 Chain Drug Survey

Top 50 American drug chains: 1988 store totals

Rank Company	Headquarters	Store totals	% change
1. Rite Aid	Shiremanstown, PA	2,171	4.8%
2. Revco	Twinsburg, OH	1,882	– 6.7
3. Eckerd	Clearwater, FL	1,580	– 0.1
4. Walgreens	Deerfield, IL	1,416	4.4
5. Hook-SupeRx, Inc.[1]	Cincinnati	1,028	57.2
6. Peoples	Alexandria, VA	807	2.2
7. Thrifty[2]	Los Angeles	806	25.7
8. Medicine Shoppe	St. Louis	755	6.8
9. CVS	Woonsocket, RI	752	7.7
10. Osco Drug	Chicago	658	2.0
11. Thrift	Pittsburgh	440	8.1
12. Pay Less NW	Wilsonville, OR	269	3.9
13. Longs	Walnut Creek, CA	236	3.1
14. Perry	Pontiac, MI	222	0.0
15. Big B	Bessemer, AL	204	11.5
16. Drug Emporium[3]	Worthington, OH	170	24.1
17. Fay's	Liverpool, NY	153	– 3.2
18. K&B	New Orleans	149	0.7
19. Phar-Mor	Youngstown, OH	114	42.5
20. Super D	Memphis	102	– 3.8
21. Genovese	Melville, NY	90	8.4
22. Medi-Save[4]	Baton Rouge, LA	89	–15.2
23. Medicare-Glaser[5]	St. Louis	86	– 1.1
24. Kerr	Raleigh, NC	86	10.3
25. Arbor	Troy, MI	80	8.1
26. Harco	Northport, AL	77	6.9
27. Fantle's (Dart)	Landover, MD	72	–15.3
28. F&M	Warren, MI	66	26.9
29. Standard	Richmond, VA	66	– 1.5
30. Snyder	Minnetonka, MN	62	1.6
31. LaVerdiere's	Winslow, ME	59	4.8
32. SupeRx[6]	Phoenix, AZ	59	0.0
33. Thrifty/White	Minneapolis	56	0.0
34. Taylor	Louisville, KY	56	1.7
35. Carl's	Rome, NY	48	– 4.0
36. Pic N' Save	Jacksonville, FL	41	0.0
37. Rix Dunnington	Auburndale, MA	37	– 7.5
38. Wellby	Portland, ME	36	0.0
39. SGC Drug Store Div	Woodbridge, NJ	35	9.4
40. Duane Reade	Long Island City, NY	32	6.7
41. Drug Fair of NJ	Somerville, NJ	31	0.0
42. Bartell	Seattle	31	3.3
43. Kinney Drugs	Gouverneur, NY	30	7.1
44. Thayer Pharmacies	Stoughton, MA	30	– 3.2
45. Rockbottom	Port Washington, NY	26	4.0
46. May's Drug Stores	Tulsa, OK	26	0.0
47. Discount Drug Mart	Medina, OH	26	8.3
48. Bill's	Benecia, CA	25	0.0
49. Drug Town	Chariton, IA	22	0.0
50. Snyder Brothers	Minneapolis	20	0.0

1. Includes 357 Hook stores, 323 SupeRx, 348 Brooks
2. Includes Thrifty drug stores, Pay 'n Save and Bi-Mart discount stores
3. Includes 69 company-controlled stores and 101 franchised stores
4. Includes retail stores only, not including institutional pharmacies
5. Acquired by SupeRx Corp. March 1989
6. Acquired Medicare-Glaser March 1989

Source: *Drug Store News* 1989 Chain Drug Survey

10-year drug store growth trend

Year	Total stores	Chain stores	Chain share	Indep. stores	Indep. share
1988	54,172	19,859	37%	34,313	63%
1987	53,963	19,142	35	34,821	65
1986	52,800	18,310	35	34,490	65
1985	52,500	17,740	34	34,760	66
1984	52,139	17,194	33	34,945	67
1983	50,264	16,589	33	33,675	67
1982	49,527	16,144	33	33,383	67
1981	49,310	15,864	32	33,446	68
1980	49,192	15,615	32	33,577	68
1979	48,822	15,110	31	33,712	69

Source: *Drug Store News* Chain Drug Survey

10-year sales trends

($ sales in billions)

Year	Total industry	% change	Total chain	% change	Total indep.	% change
1988	$57.9	8%	$36.0	10%	$21.9	5%
1987	53.5	6	32.7	8	20.8	4
1986	50.2	7	30.2	7	20.0	7
1985	47.0	9	28.2	11	18.8	6
1984	43.2	9	25.5	12	17.7	5
1983	39.7	10	22.8	11	16.9	8
1982	36.2	8	20.5	11	15.7	5
1981	33.4	10	18.5	12	14.9	8
1980	30.3	12	16.4	16	13.9	7
1979	27.2	12	14.2	17	13.0	6

Source: *Drug Store News* Chain Drug Survey

1988 chain drug stock performance

Company	1988 stock prices			Percent change from 12/31/87	4/12/89 price	4/12/89 P/E
	High	Low	Close 12/30/88			
American Stores	$66.50	$47.63	$57.88	+ 15%	$60.00	24.0
Arbor	14.25	9.50	14.25	+ 46	19.75	16.0
Big B	16.00	10.25	12.63	+ 11	11.00	11.0
Dart Drug (Fantle's)	NA	NA	1.75	NA	1.50	NA
Drug Emporium	18.00	12.63	16.25	NA[1]	22.50	NA
Fay's	11.88	5.38	11.38	+104.5[2]	10.63	15.0
Genovese	13.38	9.63	9.88	− 7	11.13	13.0
Leroy	NA	NA	$ 4.88	NA[3]	$ 5.13	NA
Longs	$37.38	$29.38	35.50	+ 17	35.38	13.0
Medicare-Glaser	5.50	1.75	5.13	+141	*	*
Medicine Shoppe	27.00	18.75	22.25	+ 17	26.00	22.0
Perry Drug	10.00	5.25	6.75	+ 23	10.38	NA
Rite Aid	40.88	29.13	32.63	− 9	34.75	15.0
Walgreens	37.38	27.13	30.25	− 2	37.88	17.0

[1] Drug Emporium went public during 1988; therefore, there is no percent change.

[2] Fay's paid a 10 percent stock dividend June 6, 1988, affecting the percentage change from 12/31/87, which has been adjusted.

[3] Leroy issued its initial public offering Nov. 7, 1988, at $5 per unit.

*Medicare-Glaser no longer listed, since SupeRx of Arizona purchased it.

Source: *Drug Store News* research

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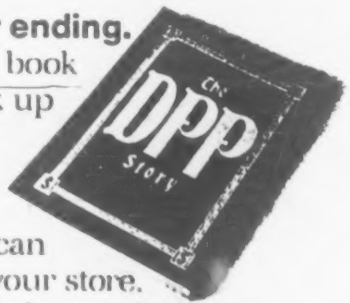

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Financial review

Continued from page 68

ful bid for Begley, last fall entered a definitive agreement to purchase Medicare-Glaser for $18.2 million, a deal that was completed in March 1989.

Medicare-Glaser had struggled in vain since going public in November 1983 to achieve strong earnings, but since "Black Monday," its stock prices had plummeted. The buy is being financed by American Continental, acting as equity partner to SupeRx.

While these and other chains were busy with acquisitions, Revco and Dart Drug (now renamed Fantle's) were struggling to keep their heads above water.

Revco's troubles, stemming from its December 1986 LBO by a group of lending banks and junk bond investors, dominated headlines during much of 1988. [*See Revco profile.*]

In June, the chain defaulted on a $46 million interest payment to its junk-bond holders. That precipitated Revco's filing for Chapter 11 July 28, marking the first major failure of an LBO in the industry.

In September, the chain negotiated a new $145 million credit package, approved by U.S. Bankruptcy Court in Akron, Ohio. The package freed up bank loans, enabling the chain to stock its stores for the fall and Christmas selling season and into '89.

To emerge from bankruptcy, Revco must develop an acceptable payment plan for $1.5 billion in liabilities.

Dart Drug (Fantle's) struggled with major financial problems during the year. In March 1988, Dart Drug offered 2.8 million common shares and 2.1 million stock options to shareholders, to raise about $6 million in order to upgrade stores, buy inventory and reduce accounts payable. But much of the earnings and cash flow of the highly leveraged company was used to service debt.

For fiscal 1988, Dart Drug reported a net loss of $24.5 million on sales of $218.2 million (compared with a $1.8 million loss on $265.6 million in sales the previous year).

Dart Drug retained $22.7 million in cash from the sale of stock and 11 leasehold interests during the year, and in April 1989, management was considering a fiscal restructuring to help finance its ambitious plans for the new Fan-

Scorecard for publicly-held drug chains

Drug store units

Company	'88	'87	'86	'85	'84
Rite Aid	2,171	2,072	1,586	1,372	1,275
Walgreens	1,416	1,356	1,273	1,095	1,002
Longs	236	229	222	208	191
Perry	222	222	203	191	146
Big B	204	183	150	126	114
Fay's	153	155	150	139	125
Genovese	90	83	79	75	77
Arbor	80	74	52	43	N.A.

Source: Company reports

Net-to-sales ratio

Company	'88	'87	'86	'85	'84
Rite Aid	3.3%	5.8%	4.3%	4.8%	5.1%
Longs	2.9	2.8	2.4	2.5	2.9
Big B	2.7	2.9	2.1	2.3	2.9
Arbor	2.7	2.4	3.5	3.0	N.A.
Walgreens	2.6	2.4	2.8	3.0	3.1
Fay's	1.9	1.2	0.9	0.6	2.4
Genovese	1.5	1.5	0.8	1.2	1.9
Perry	*	*	0.9	1.8	2.1

*Reported net loss
Source: Company reports

Gross margin percentage

Company	'88	'87	'86	'85	'84
Big B	N.A.	30.2%	29.7%	29.2%	29.3%
Fay's	29.6%	27.8	26.8	23.7	25.5
Walgreens	29.0	29.9	30.3	30.7	30.7
Genovese	29.0	29.7	29.1	28.9	29.7
Arbor	28.7	28.8	29.2	28.3	N.A.
Rite Aid	28.2	28.0	28.6	28.7	29.3
Perry	26.1	30.5	31.1	31.7	31.1
Longs	24.9	25.3	24.1	24.2	24.0

Source: Company reports

Sales per average store

(In thousands of $)

Company	'88	'87	'86	'85	'84
Longs	$8,300	$7,740	$7,367	$7,155	$7,203
Genovese	4,071	3,727	3,427	3,107	2,861
Walgreens	4,400	3,063	2,769	2,765	2,609
Arbor	3,300	2,909	2,913	2,800	N.A.
Perry	3,000	2,477	2,399	2,007	1,983
Fay's	2,878	2,705	2,645	3,112	2,934
Big B	1,330	1,322	1,288	1,190	1,299
Rite Aid	1,257	1,149	1,108	1,057	1,017

Source: Company reports

Return on equity percentages

Company	'88	'87	'86	'85	'84
Walgreens	19.3%	17.6%	19.9%	21.0%	22.3%
Genovese	18.2	17.6	8.1	12.7	19.3
Longs	18.1	16.4	13.3	13.5	—
Fay's	17.6	10.8	6.8	4.6	15.6
Arbor	16.3	14.7	24.4	38.9	N.A.
Rite Aid	15.8	28.3	19.6	16.6	20.6
Big B	N.A.	12.4	12.9	12.5	15.9
Perry	*	*	7.4	13.3	12.7

* Reported net loss
Source: Company reports

*Expense ratio**

Company	'88	'87	'86	'85	'84
Longs	20.1%	19.8%	19.2%	19.3%	—
Rite Aid	21.4	20.4	19.7	19.5	17.5%
Arbor	23.8	23.9	22.8	22.7	N.A.
Walgreens	24.4	25.4	25.0	24.2	24.1
Big B	N.A.	24.4	24.3	24.2	23.2
Perry	26.3	28.0	28.2	27.8	26.2
Genovese	26.4	26.8	27.5	28.1	24.7
Fay's	29.6	25.8	23.6	20.8	20.2

*Excludes depreciation and amortization costs
Source: Company reports

Net income

(In millions of $)

Company	'88	'87	'86	'85	'84
Walgreens	$129.1	$103.5	$103.1	$94.2	$85.4
Rite Aid	95.2	144.6	78.0	62.5	69.9
Longs	55.9	49.2	38.6	37.7	40.1
Fay's	10.0	5.9	4.1	2.8	8.7
Big B	7.2	7.3	4.5	4.0	4.4
Arbor	6.5	5.2	5.3	3.6	N.A.
Genovese	5.5	4.6	2.0	2.9	4.1
Perry	(29.9)	(7.9)	5.9	9.6	7.7

Source: Company reports

Total corporate sales

(In millions of $)

Company	FY ends	'88	'87	'86	'85	'84
Walgreens	8/31/88	$4,884	$4,282	$3,661	$3,162	$2,745
Rite Aid	3/3/89	2,867	2,486	1,757	1,564	1,360
Longs	1/26/89	1,925	1,772	1,635	1,480	1,376
Perry	10/31/88	667	726	648	552	373
Fay's	1/31/89	527	500	452	445	367
Genovese	2/3/89	366	314	271	223	220
Big B	1/28/89	271	249	210	175	148
Arbor	7/31/88	247	215	151	120	N.A.

Source: Company reports

The year's major takeovers

Company	Acquisition	Store locations
Hook-SupeRx	361 Brooks drug and H&BA stores	Northeastern U.S.
Rite Aid	114 Peoples (Lane Drug) stores; 49 Begley drug stores; 11 Revco stores	Ohio, Indiana Kentucky Florida
Thrifty Corp.	110 Pay 'n Save and 37 Bi-Mart stores	Washington, Oregon, Alaska, Hawaii, California
SupeRx Corp. of Arizona	90 Medicare-Glaser stores; Three Walgreens stores; Five Kroger Florida Choice	St. Louis, Connecticut Alabama Florida
Oshawa Group	108 Boots Drug Stores	Ontario, Canada
Taylor Drug	15 Otto drug stores	Kentucky
Cullum management	Leveraged buyout of Tom Thumb/ Page	Texas
Malone & Hyde management	Leveraged buyout of Super D	Tennessee

Source: *Drug Store News* research

Major takeovers mark 1988's merger activity

The past year has seen a furious spate of buyout activity in the chain drug industry, and the end of some big names like Brooks Drug, Begley, and Boots Drug Stores. Those logos are now history.

Some of the oldest and best-known names in the business changed hands in 1988 and early 1989. Among them: Begley Corp., which went to aggressive Rite Aid; Medicare-Glaser, bought earlier this year by SupeRx Corp.; Boots, which sold itself off in two stages last year after failing to ignite in eastern and western Canada; and Otto Drugs, a 20-year-old chain in Kentucky which went to former rival Taylor Drug Stores.

Some of the biggest takeovers pushed the acquiring chains into completely new markets. The purchase of Brooks put Hook-SupeRx, Inc. into the Northeast, and SupeRx of Arizona's acquisition of Medicare-Glaser gave the fledgling chain a Midwestern base for expansion and a toehold in New England.

West Coast drug retailing saw a major consolidation with the sale of troubled Pay 'n Save and Bi-Mart to Thrifty Corp. The deal gave Thrifty the potential for big market gains in the Northwest and an entry into the Hawaiian and Alaskan markets, and ended Pay 'n Save's short, troubled history as an independent retailer following its acquisition and spinoff by The Trump Group.

Thrifty immediately announced a series of steps to boost productivity in the newly acquired units, but said it will keep the Pay 'n Save and Bi-Mart logos.

Peoples store shift

Another major shift in ownership in recent months has been Peoples Drug Stores' decision to sell its 325 stores in Georgia, Ohio and Indiana. In Georgia, the 85-unit Reed Drug division went quickly to Big B, giving the Alabama-based chain a major presence in Atlanta for the first time.

Rite Aid, meanwhile, agreed to buy 114 of Peoples' Lane Drug Co. stores in Ohio and Indiana. The takeover boosts Rite Aid's store count to nearly 2,300, and makes it the top drug retailer in markets like Toledo and Canton, Ohio.

At least two drug chains were taken private in management-led leveraged buyouts in 1988: Cullum Cos.' Tom Thumb/Page combo stores and Page Drug stores; and Malone & Hyde's Super D chain, which went to a management-led investment team after Fleming bought the parent company.

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Store designs emphasize color, convenience

Drug chains improving prototypes and refining product mixes

The creative side of drug store retailing was very much alive in the past year: it showed up in an array of new store formats that emphasized the return to basic drug store categories with color and flair.

Chains around the country continue to develop and improve store prototypes as they pare back on non-drug general merchandise and refine product mixes. Most are basing new store designs at least partly on improved, computer-aided information systems that track product movement and aid in more productive planogramming and better customer traffic flow.

Along with designing a new format around the optimum mix of merchandise, the watchword now is on color. Color is being used to stimulate and please consumers; to give stores a uniform look; and to make shopping easier by setting individual departments apart with their own distinct, ensemble look.

The creative use of color thematics—often accompanied by dramatic neon department signing—is evident in new store designs by Perry, Longs, Fantle's, Pay Less and others.

Cosmetics
COSMETICS

Deep discounters are paying better attention to the merchandising appeal of their formats, as this overhead of Drug Emporium service cosmetics department shows.

Many drug chains have overhauled their basic store prototypes for the 1990s, and are busy retrofitting the new design chainwide. One of the most dramatic examples is Fantle's, the upscale prototype unveiled by Dart Drug Stores (the entire chain has since been renamed Fantle's) late last year.

Fantle's eschews Dart's old low-price strategy in favor of a convenient, quality image and an unusually broad product mix. The new design will serve as the basis for a chainwide renovation and logo change at Fantle's as fast as the chain's cash flow allows.

Perry and Pay Less NW have unveiled formats that depart radically from the chain's basic prototype, and Revco will soon open its first completely redesigned store in Ohio.

American Stores recently opened a new Jewel Osco combo store format in Florida, and Longs is flying high with its first Longs Pharmacy, a smaller, experimental design which opened last year in downtown San Diego.

In all cases, color and dramatic departmental signing play an important role. The cosmetics departments in most new formats have also been transformed into a centerpiece of the stores' interiors.

Drug chains are also facing new store designs from competitors outside their own ranks. Hypermarket retailers are beginning to make inroads around the country, and several debuted in the past year. Among them: K mart and Bruno's first joint-venture American Fare store outside Atlanta; the first Auchan hypermarket in Houston; and the first Super Valu hypermart in suburban Cleveland.

> *Along with designing a new format around the optimum mix of merchandise, the watchword now is on color.*

Definitions of Formats

Bantams (such as Rite Aid, CVS):
- 4,000-7,000 square feet
- Primarily Rx/H&BA
- Limited assortments
- Convenience draw
- Higher margins

Conventionals (such as Walgreens, Osco, Peoples):
- 8,500-15,000 square feet
- Full H&BA and cosmetics assortments
- Selected general merchandise

Superstores (such as Longs, Thrifty, Pay Less NW):
- 20,000+ square feet
- Full H&BA, OTC and cosmetics
- Broad general merchandise assortment
- Limited food

Deep discount stores (such as Drug Emporium, F&M, Phar-Mor):
- 15,000-30,000 square feet
- Strong price image, low margins
- Assortment based on deal availability
- Buying/warehousing at store level
- High dollar volume—over 4 percent of total industry sales

Combos (such as Kroger Food and Drugs, Tom Thumb-Page, Jewel-Osco):
- 35,000+ square feet
- Full H&BA, cosmetics, Rx depts. account for one-third of sales, two-thirds of profits
- Complete grocery section
- Broad general merchandise assortment

High-volume Independents:
- More than $1 million annual volume
- Sixty percent of total volume in H&BA/OTC
- Limited general merchandise assortment

Retail diversification

Company	Store type	Number of stores 1988	Number of stores 1989
Harco	Auto parts	24	29
Medic Discount	Home health	1	1
May's	Deep discount	4	5
Walgreens	Home health Restaurants	4 5	4 0
Jean Coutu	Deep discount	3	5
Eckerd	Eye care superstores	10	13
Medi-Save	Optical	3	4
Douglas	Optical	2	3
Fantle's (Dart)	Deep discount	5	5
Rix Dunnington	Deep discount	1	1
Thrifty•White	Card shops	2	2
Genovese	Deep discount Photo supplies	0 1	1 1
Big B	Home health Deep discount	5 7	5 11
Peoples	Home health Deep discount	2 8	2 8
Pay Less NW	Deep discount	8	0
Rite Aid	Deep discount Book stores Dry cleaning	28 40 0	40 47 152
Fay's	Auto parts Stationery	14 12	16 14
Snyder's	Deep discount Drug store w/o Rx	1 1	1 1
Thrift	Home health	4	5
Shoppers Drug Mart	Deep discount Convenience foods Home health	12 16 15	9 24 17

Source: *Drug Store News* 1989 Chain Drug Survey

Pharmacy at deep discounters

(Ranked by no. of Rx depts.)

Company	No. of stores	Stores with Rx		Computerized depts.	
		No.	%	No.	%
Drug Emporium*	69	69	100%	69	100%
Phar-Mor	114	57E	50	N.A.	N.A.
Drug Palace	40	40	100	40	100
F&M	66	32	48	32	100
Freddy's	18	18	100	N.A.	N.A.
Dot	14	14	100	N.A.	N.A.
A.L. Price	14	14	100	14	100
Rockbottom	26	13	50	0	—
Drug World	9	9	100	9	100
Drug Castle	10	9	90	9	100
Bud's	9	8	89	7	88
Rx Place	8	8	100	8	100
Sid's	7	7	100	7	100
Maxidrug	5	5	100	5	100
Price Less	2	2	100	2	100
Ike's	3	1	33	N.A.	N.A.
Cost Cutters	10	1E	10	N.A.	N.A.
Great American	1	1	100	1	100

E = estimate
*Company-operated stores
Source: *Drug Store News* 1989 Chain Drug Survey

Top deep discounters

Company (parent company)	Headquarters	Sales (millions)	% change	Stores	% change
1. **Drug Emporium**	Worthington, OH	880E	10%	170	24%
2. **Phar-Mor**	Youngstown, OH	752E	52	114	43
3. **F&M**	Warren, MI	402E	22	66	27
4. **Pic N' Save** (Nat'l Merchandise Co.)	Jacksonville, FL	265E	6	41	0
5. **Rockbottom**	Port Washington, NY	200E	32	26	4
6. **Marc's**	Middleburg, OH	197E	8	15	25
7. **Freddy's** (Melville)	Woonsocket, RI	130E	37	18	29
8. **Drug Palace** (Rite Aid)	Shiremanstown, PA	78E	59	40	43
9. **Dot** (Wal-Mart)	Bentonville, AR	70E	20	14	17
10. **A.L. Price** (Perry)	Pontiac, MI	49E	36	14	40
11. **Rx Place** (Woolworth)	New York, NY	46E	5	8	0
12. **Cost Cutters** (Community Distributors)	Somerville, NJ	42E	8	10	11
13. **Drug Castle** (Brown)	Springfield, OH	41E	8	10	25
14. **Howie's** (Shoppers Drug Mart)[1]	Toronto	38E	N.A.	9	− 25
15. **Drug World** (SupeRx)	Cincinnati	32E	−20	9	− 25
16. **Bud's** (Peoples)[2]	Alexandria, VA	30E	4	9	0
17. **Sid's**[3]	Hudson, OH	28E	64	7	250
18. **Joel & Jerry's**	Largo, FL	24E	10	6	0
19. **Total Plus** (Fantle's)	Landover, MD	18E	6	5	0
20. **Cecille's**	Detroit	16E	4	1	0
21. **Maxidrug** (Coutu)	W. Springfield, MA	15E	50	5	67
22. **Ike's** (SuperD Drugs Inc.)	Memphis	13E	19	3	− 25
23. **Price Less**	Sacramento, CA	12E	50	2	100
24. **Great American** (Genovese)[4]	Melville, NY	1	—	1	—

E = Estimated

[1] Reformatted to Shoppers Drug Mart stores in 1989
[2] All units sold or reformatted into Peoples in 1989
[3] Formerly known as Jax
[4] Opened late October 1988

Source: *Drug Store News* Chain Drug Survey

Deep discounters extend market gains; drug chains counter w/price message

The deep discount boom rolls on. The nation's off-price drug store powerhouses made major market advances over the past year, and a slew of smaller competitors, including some new operators, kept things hopping with new stores around the United States.

Despite razor-thin gross margins as low as 16 percent and heavy start-up and inventory costs, the deep discounters that have made it are thriving.

The growth of deep discounting is also feeding into itself, as consumers in more and more cities become familiar with the concept and eager to take advantage of the price-cutting.

Drug chains have responded to the new competition in a variety of ways—including both marketwide "panic" price-cutting and selective discounting in a few nearby stores—but many have also adopted off-price tactics of their own without giving away the store.

Some of the nation's leading drug chains also remain committed to their own off-price drug store divisions, both as offensive and defensive retail weapons. Rite Aid's Drug Palace stores, Perry's 13 A.L. Price outlets, Jean Coutu's Maxidrug and Fantle's Total Plus division all represent ongoing chain drug commitments to the concept.

Some drug chains have backed away from deep discounting, however. Peoples is shedding its Bud's off-price stores; Shoppers Drug Mart is converting its nine remaining Howie's deep-discount stores to the Shoppers format; Imasco has sold six Pharmaprix Carnevale once operated by Shoppers; Wal-Mart has walked away from its Dot off-price experiment; and Pay Less has converted its Wonder World stores to its traditional drug store format.

Among deep discounters, the Big Three—Drug Emporium, Phar-Mor and F&M Distributors—have been the most successful at penetrating new markets and reaching that critical mass necessary for self-sustaining growth and profitability.

Mass merchandisers with pharmacies

Company	Headquarters	Stores	No. of Rx depts.
K mart	Troy, MI	2,149	1,080
Wal-Mart	Bentonville, AR	1,279	765
Fred Meyer	Portland, OR	112	96
ShopKo	Green Bay, WI	87	84
Pamida	Omaha, NE	168	35
Target	Minneapolis, MN	379	21
Venture	St. Ann, MO	73	12
Fedco	Santa Fe Springs, CA	9	9

Source: *Drug Store News* Chain Drug Survey

Drug Emporium, now up to 170 corporate and franchised stores, is again moving in the West, with its first new unit in the Los Angeles market in three years and plans for many more. The chain bought out the original West Coast franchise after its growth in that market stalled at five stores, and its future impact there could be much more dramatic.

The nation's leading off-price chain also entered new markets in 1988, including Little Rock, Ark., and it is eyeing the Northeast.

Phar-Mor, meanwhile, continues its blistering growth pace, with 123 units now online and some 40 more planned for this year. Over the past year, the chain entered new states including Texas, Colorado and Wisconsin, and shored up its strength in Florida, Chicago and many other markets.

F&M, meanwhile, boosted its strength in markets like Chicago, Detroit and Milwaukee, and pushed aggressively into the Washington, D.C. market through a series of rapid acquisitions.

Freddy's, the off-price division of CVS parent company Melville Corp., also made new inroads last year. The chain entered Virginia's Tidewater area through the purchase of three former Pathmark Super Drug stores from F&M, and is adding new units in Florida and upstate New York.

Smaller off-price retailers have also been active. Jean Coutu beefed up its Maxidrug chain in New England, and George Jeffers, who brought deep-discount drug store retailing to northern California, added a second Price-Less store in suburban Sacramento, Calif.

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Combos booming amidst super indy mergers

The furious merger and buyout activity in the supermarket industry hasn't slowed the growth of pharmacy and H&BA sales in the nation's combo stores. For that matter, it hasn't put the brakes on the rapid pace of new combo store openings around the country either.

Some 25 years after the first pioneering efforts to merge food stores and drug stores under the same roof, food-/drug combos have become the preferred growth vehicle for almost all the nation's food chains. Combos offer powerful inducements for one-stop shopping, thus building higher sales per customer; just as important, with their larger size and pharmacy anchor they offer supermarket retailers the chance to boost profitability with larger selections of high-margin H&BAs.

"What we're seeing is a merger of the drug store into the food store," said a supermarket industry research executive recently. "The food industry has become very aggressive in promoting pharmacy."

At powerhouse Albertsons combos, left wall cosmetics display helps anchor general merchandise side of store and lure female shoppers.

Many of the nation's biggest food chains now include pharmacies and large drug store sections in new stores as a matter of course, and prototype store designs continue to go up in size to accommodate the sections. One example of the larger-is-better trend is American Stores, which has begun opening 75,000-square-foot Jewel Osco stores in Florida; and Ralphs Grocery, which is downsizing its 70,000-square-foot Giant prototype only so it can add full-sized Thrifty drug stores to the interiors.

Food retailers are also constantly refining their combo formats, and their efforts to make them powerful retail weapons have evidently borne a lot of fruit. According to a recent study by Towne-Oller Associates, the nation's 3,700 combo stores chewed up 13 percent of the U.S. retail prescription drug market last year. And on a one-on-one basis, the research firm noted, combos do far better than chain and independent drug stores in sales of prescriptions and H&BAs.

For the supermarket industry, however, the past year has been one of frenzied consolidation and reorganization. In the West, American Stores paid $2.5 billion to acquire one of its toughest competitors, Lucky Stores, and then waged an extended court battle to prevent the California state attorney general from undoing the merger. In March, a federal appeals court removed a major roadblock in the way of the merger, long after American Stores began welding Lucky and Alpha Beta into a single, powerful West Coast food and combo store retailer.

In the same state, Vons brought 162 former Safeway stores in southern California under its corporate wing last summer and fall, turning most of them into Vons stores and a few into its upscale Pavilions and Pavilions Place formats.

Two other former Safeway divisions agreed to merge early this year, creating a grocery and combo store chain of 154 units in Oklahoma and Arkansas. Among those stores: 50 units with pharmacies. And in Houston, Safeway's 99-store Houston division was sold to a management-led group last June.

Also in the Southwest, Dallas-based Cullum Companies launched a management-led leveraged buyout, kicked off its Rainbow store format aimed at Hispanic consumers, and backed away from its joint hypermarket venture with Wal-Mart Stores.

In another joint hypermarket venture, Birmingham, Ala.-based Bruno's and K mart opened their first American Fare outside Atlanta early this year.

In Florida meanwhile, Kroger sold its 43-store Florida Choice division to help finance its debt-laden restructuring last year. The state also saw the sale of Lucky's 95-store Kash n' Karry division to a management-led team following the merger with American Stores.

The Midwest saw a spate of buyout activity, with the sale of Big Bear to Penn Traffic Co. in Ohio; the takeover of Farmer Jack's by A&P in Detroit; and the purchase of Fazio's in Cleveland by Riser Foods, parent company of Carls Food and Drug Centers.

Massachussetts combo retailing also got into gear last year, following the removal of legal barriers in that state. Stop & Shop, Purity Supreme and Star Markets are all opening food/drug stores following the change in law.

Supermarket chains with pharmacies

Company	Headquarters	Total stores	No. of stores with Rx departments	% of stores with Rx departments
Kroger	Cincinnati	933	466	50
Safeway	Oakland, CA	1,144	300	26
Albertson's	Boise, ID	501	224	45
American Stores	Salt Lake City	1,394	150	11
Supermarkets Gen'l	Woodbridge, NJ	142	131	92
H.E. Butt	Corpus Christi, TX	155	107	69
Giant Food	Landover, MD	146	96	66
Smith's Management	Salt Lake City	96	89	93
Shop Rite, Wakefern	Elizabeth, NJ	174	84	48
Vons	El Monte, CA	342	83	24
Lucky Stores	Dublin, CA	351	80	23
A&P Supermarkets	Montvale, NJ	1,200	70	6
Furr's	Lubbock, TX	144	64	44
Raley's	Sacramento, CA	53	52	98
Tom Thumb Page	Dallas, TX	73	43	(59)
Grand Union	Elmwood Park, NJ	304	37	12
Farm Fresh	Norfolk, VA	59	36	61
Randall's	Houston, TX	39	35	90
Wegman's	Rochester, NY	40	32	80
Stop & Shop	Quincy, MA	116	30	26
Smitty's Super Val	Phoenix	24	24	100
Consumers Markets	Springfield, MO	37	23	62
Bruno's	Birmingham, AL	220	16	9
Erickson Food & Valu Drug	Hudson, WI	14	14	100
Dahl's Food Markets	Des Moines, IA	13	13	100
Carr's Quality Centers	Anchorage, AK	13	13	100
Foodway	Fayette, AL	32	10	31
Sack 'n Save (Minyard's)	Coppel, TX	12	7	58
Dierbergs Markets	Chesterfield, MO	12	7	58
Randall Foods	Mitchell, SD	27	4	15

Source: *Drug Store News* 1988 Chain Drug Survey

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NET WT 2 OZ BONBONS FRAISE 60g
LEMON FLAVOURED DROPS
Les Citrons
NET WT 2 OZ · BONBONS CITRON 60g
Les Cassis
NET WT 2 OZ BONBONS CASSIS 60g
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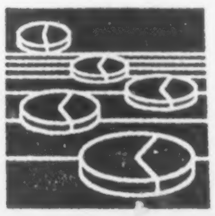
Scanning and electronic interchange mark new age



Drug chains are beginning to apply computers to new areas of their businesses.

Many are pursuing the promise that electronic automation holds to make operations more efficient. To most, this means point-of-sale (POS) cash register systems and pharmacy computers.

Other retailers are moving beyond to new generations of machines for new applications. One of the most important trends is in networking and data communications. More operators are moving information electronically among stores, between stores and headquarters, between stores and chain warehouses, and between warehouses and product vendors.

In the pharmacy, new software applications are helping pharmacists to service customers and better manage third-party business.

Scanning explodes on scene

At the front-of-the-store checkout, more chains are using scanners. Chains including Revco, Osco, Rite Aid, Eckerd, Pay Less NW, Thrift, Peoples, and Fay's put their full weights behind rollouts of scanning systems. They either bought new POS machines with scanning abilities, or plugged into their existing base of electronic cash registers.

Scanning chains can skip the laborious task of price tagging merchandise, a major savings. At the front-end, scanning adds speed and accuracy to checkouts and gives running inventory. It also enables checkout clerks to be more responsive to customers because the process is easier.

At Great American, SASI scanners provide frequent reports on sales, average sale, item movement, gross profit and traffic.

Chains use pharmacy computers to maintain patient profiles, warn of drug interactions and better enable pharmacists to consult.

Automated price and item capture provide clear benefits by allowing chains to more closely tie store inventory to sales rates, and better track merchandise flow. Automated daily or even hourly, balancing of accounts also yielded gross profit information, providing a more exact read on profits.

Thrifty Drug showed an aggressive commitment to POS. By year's end, it completed POS installations in 385 of its 655 stores, and launched laser scanning tests in 12 stores. The stores will be on-line with headquarters, giving greater central control. Thrifty plans to use a satellite system to communicate between headquarters and stores.

Walgreens watchers saw one of the industry's broadest—and potentially most integrated—technology rollouts. PCS systems with scanning began in Walgreens' Ft. Wayne, Ind. stores, and spread to Chicago, as the store-level side of Walgreens automation plan developed.

Walgreens had 25 stores installed by March. Stores will be on-line to Walgreens' warehouses, each of which will have an IBM mid-range computer dedicated to inventory control and billing. (Store orders now are sent to headquarters and parceled out among the warehouses in batch form).

Store replenishment can more accurately be tied to sales, as data is captured electronically at the checkout, and the order cycle is sped through on-line communications.

Not all POS systems are as advanced as Walgreens', but they still provided new efficiency levels for chains.

Drug Emporium rolled out a home-grown system in about five stores that ties checkouts' small NCR electronic cash registers with a PC in the manager's office. The network promotes tighter cash control by preventing the reading of the registers at shifts' end until cashiers have made their cash account declarations.

Walgreens' warehouse computers weren't slated to talk only with its stores. They'll be handling orders and billing with the chains' vendors.

EDI takes a bow

These vendor transactions will increasingly be through electronic data interchange (EDI). EDI should provide the same advantages of tight inventory control and smooth ordering that Walgreens plans to gain from on-line communication between the store and warehouse.

Revco and Eckerd were among chains which were planning EDI programs with major vendors. Chains were following the drug wholesale industry, which has reduced its inventory carrying costs and shortened the payment float through electronic partnerships with their suppliers.

(Many chains continue to favor hand-held portable data collection devices for inventory taking and ordering to the warehouse in a batch mode).

Chains' front-of-store systems aren't only talking with the warehouses. More chains are seeking to integrate the POS side with the pharmacy to make it more efficient for headquarters to collect and send data between stores.

Fay's Drug began such an integration using a software module developed by Honeywell to link Fay's Honeywell computer-based pharmacy system with NCR cash registers at the checkouts.

Pharmacy systems were upgraded for other reasons.

Osco completed a $16 million chainwide installation of a

Continued on page 96

Drug chains with scanning

(Ranked by percentage of stores equipped)

Company	No. of stores	No. with scanning	% with scanning
F&M	66	66	100.0%
Pay Less NW	269	132	49.1
Big B	204	100	49.0
Thrift	440	140	31.8
Rite Aid	2,171	614	28.3
Osco	658	172	26.1
Peoples	807	108	13.4
Kinney	30	4	13.3
Genovese	90	7	7.8
Thrifty	806	30	3.7
Revco	1,882	70	3.7
Fay's	153	3	2.0
Shoppers DM	612	7	1.1
CVS	752	7	0.9
Walgreens	1,416	12	0.8
Longs	236	2	0.8
Snyder's	62	1	1.6

Source: *Drug Store News* 1989 Chain Drug Survey

Pharmacy computers in chain drug stores

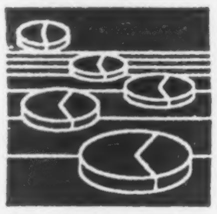
Company	No. of Rx depts.	No. with pharmacy computers	% with pharmacy computers
Rite Aid	2,080	2,080	100%
Revco	1,855	1,775	96
Eckerd	1,580	1,580	100
Walgreens	1,362	1,362	100
Thrifty	802	802	100
Osco	654	635	97
CVS	545	545	100
Medicine Shoppe	755	529	70
Peoples	800	500	63
Thrift	439	424	97
Shoppers Drug Mart	612	400	65
Pay Less NW	261	261	100
Longs	236	236	100
Big B	203	203	100
Fay's	153	153	100
K&B	149	149	100
Jean Coutu	139	139	100
Genovese	90	90	100
Kerr	86	86	100
Arbor	80	80	100
Harco	77	77	100
Drug Emporium	69	69	100
Medi-Save	89	66	74
Snyder's	61	61	100
Taylor	56	56	100
Thrifty•White	53	53	100
Standard	46	46	100
Wellby	36	36	100
F&M	32	32	100
Duane Reade	32	32	100
Bartell	31	31	100
Kinney	30	30	100
Thayer Pharmacies	30	30	100
Rix Dunnington	32	29	91
Discount Drug Mart	26	26	100
May's	26	26	100
Bill's	25	25	100
Medic Discount Drugs	20	20	100
Snyder Brothers	20	20	100
Douglas	15	15	100
Austin	9	9	100
Drug Castle	9	9	100

Source: *Drug Store News* 1989 Chain Drug Survey

Scanning systems by Symbol Technologies and Spectra Physics are among systems being tested in this Chicago Walgreens. Walgreens launched a planned chainwide rollout of automated POS systems in Ft. Wayne, Ind. and Chicago.

MIS chiefs need support from senior management

By William P. Seltzer



The senior vice president of distribution's frustration level was at a new high. He had just completed a meeting with Hiram Bytes, the director of management information systems (MIS), who had gotten back to him on his five seemingly small, but critically necessary, systems projects. One had been estimated to take 22 man-days, another 40, and the largest and most important, 219.5 man-days.

Bytes had explained that each of his requests would be presented to the MIS steering committee in two weeks to evaluate priorities. Then the projects would be placed on the schedule. Of course, if distribution wanted to push back some of its previously established priorities, MIS could get started sooner ....

William P. Seltzer is senior vp-MIS at Revco D.S. Inc. Previously he was executive vp and chief operations officer of World Wide Chain Store Systems, a software designer, and vp-MIS at H. E. Butt, Inc., the Texas retail chain.

Sound familiar?

What is it about MIS? Everything seems to take so long. There are all those bureaucratic steering committees. . . sign off procedures . . . and man-days . . . not to mention their jargon. And they always say, "If we could add programmers, we could get it done sooner."

In too many cases, MIS promises have turned to disappointment, anger, and finally to apathy on the part of those who depend on them.

Does it have to be this way? Is it this way in every company? The answer to both questions is "no."

There are four important factors in establishing a top-notch systems function:

- business leadership
- quality of people
- management commitment, and
- process.

In this article I'll discuss the first three of these factors. The fourth, process, is too complicated to be dealt with in this space.

Business leadership

Retail drug chains must learn to demand the same quality of business leadership in senior systems executives as is expected in store operations, marketing, and other functional areas. MIS executives must have the same sense of urgency and the same broad business perspective. *Too often, MIS executives fail on both counts.*

Retailing is a fast business. Marketing, store operations and distribution need the ability to act and react quickly. They need systems to be developed equally as fast. Many times, the systems developed are too complicated to support rapidly changing business requirements. Simplicity can be the key to adaptability.

It's also important that systems executives understand *all aspects* of the business . . . how batch refill helps distribution. . . how promotional counting impacts stores . . . how forward buying affects gross profit and what it does to warehouses. It's only those with a deep knowledge of retail and all aspects of their specific companies who can design and implement systems which truly give total solutions.

Quality of people

The quality of the systems staff is equally important. I recently received a questionnaire from the business department of a large university. One of the questions was: "What causes things to go wrong in systems?" My answer was that—too often—systems organizations hire business majors instead of liberal arts graduates.

Students study business to gain employment. But they study mathematics, philosophy, English and history to gain an education.

Many business schools teach one particular topic. . . and then another particular topic . . . and then another—stressing mastery of facts and techniques instead of *independent critical thinking*. A belief is somehow instilled that the best solution to every problem can be deduced with the aid of a computer. In fact, two of my most successful projects rejected computer solutions.

Technology is wonderful and it does many things for us. Retailers must understand it to stay at the front of the pack. But doing systems is doing business. It requires people who paint in broad strokes. It requires the ability to learn and to think analytically. Programmers, the most important people in systems, need agile minds.

Too many systems organizations don't understand this.

Management commitment

The third most important element to an effective systems organization is management commitment from the top. In many ways, this can be the toughest issue to resolve as it depends upon an organization and the people within it.

In general, systems steering committees will not work unless they are comprised of an organization's senior management. Only at that level can a business vision be translated into a systems vision. Steering committees made up of middle manager specialists let themselves get bogged down in man-day analyses, priorities, and too much detail—which systems specialists are only too happy to lead them through.

And senior management review—if it's only done once or twice a year—isn't enough. After all, retail is never business as usual. Hiram Bytes will be waiting to give his systems presentation and the secretary will call to explain that he needs to cut his two-hour presentation to one hour because of a wildcat strike in the Southeast. . . and by the way, could he talk through lunch because a consumer activist group is in the lobby demanding to see top management? . . .

Systems projects are as critical to today's drug chain as marketing programs, store operations strategies and distribution philosophies. They require senior managment review, understanding, sense of urgency and pressure to get implemented. Ultimately, it's the vision and support of this group which creates the right systems organization.

Tomorrow's most successful retailers will be those who understand this today.

Top warehousing drug chains

(Ranked by 1989 distribution center square feet)

Company	1988 No. of DCs	1988 Total sq. ft.	1989 No. of DCs	1989 Total sq. ft.
Revco	9	2,800,000	8	2,500,000
Walgreens	7	2,378,000	7	2,378,000
Eckerd	7	2,050,000	6	1,860,000
Thrifty	3	1,180,000	7	1,720,000
Peoples	7	1,600,000	7	1,600,000
Rite Aid	5	1,598,000	5	1,598,000
CVS	3	1,400,000	3	1,500,000
Osco	3	1,013,257	5	1,420,845
Hook-SupeRx Inc.*	3	1,110,000	3	1,110,000
Pay Less NW	2	1,000,000	2	1,000,000
Thrift	3	668,572	3	668,572
Fay's	2	640,000	2	640,000
Fantle's (Dart)	1	620,000	1	620,000
K&B	2	453,000	2	453,000
Snyder's	1	360,000	1	360,000
Genovese	1	155,000	1	265,000
Jean Coutu	1	250,000	1	250,000
Big B	1	240,000	1	240,000
Arbor	1	60,000	1	233,600
Longs	3	185,000	4	221,000
Rockbottom	1	200,000	1	200,000
Duane Reade	1	130,000	1	155,000
Harco	1	130,000	1	130,000
Kerr	1	128,000	1	128,000
Kinney	1	120,000	1	120,000
Medicine Shoppe	3	120,000	3	120,000
Standard	1	116,000	1	116,000
Taylor	1	80,000	2	100,000
Discount Drug Mart	1	95,000	1	95,000
F&M	1	77,000	1	77,000
Bill's	1	30,000	1	49,000
Thayer	1	37,500	1	37,500
Douglas	1	33,000	1	33,000
Bartell	1	32,000	1	32,000
May's	1	15,000	1	15,000
Medi-Save	1	15,000	1	15,000
Austin	1	13,000	1	13,000
Snyder Bros.	1	3,000	1	3,000

* Includes Hook's and Brooks distribution centers

Source: *Drug Store News* 1989 chain drug survey

By providing info on demand, on-line systems help eliminate invalid third-party claims.

Scanning, electronic interchange

Continued from page 90

drug interaction screening system. Pharmacists can refer to a database of about 14,000 potential drug interactions.

Perry Drug rolled out a new pharmacy system it said would allow tighter control on inventory and make third-party billing more efficient.

Eckerd, meanwhile, hired a squad of programmers to begin writing applications for its next generation of pharmacy computers.

Thrift added power and memory to its pharmacy system to put PC-type applications such as spreadsheets in its pharmacists' hands. The upgraded functions complemented on-line transactions possible with a central host.

Rite Aid and Revco planned to roll out in-house systems for on-line verification and adjudication of third-party claims.

The chains feel they can have more control over such issues as eligibility and billing parameters and allow pharmacists to handle claims faster by putting the stores on-line to headquarters' databases.

Pay 'n Save also announced the rollout completion of a $5.5 million pharmacy system upgrade using General Computer Corp. products. GCC's system was said to allow for "central handling" of third-party business, and includes a drug interaction package.

Other chains experimented with claims management terminals by such companies as G.C.C., Envoy and PCS that put their stores on-line with third-party processors such as Envoy and PCS.

Drug Emporium pharmacies will communicate with PCS for third-party claims through IMB RTs in which the modem and communications software is built in. The new pharmacy system was rolled into 70 Drug Emporium corporate stores, automating such functions as patient profiles and drug interactions.

Government gets involved

As if third-party claims management wasn't confusing enough, the federal government stepped into the picture when it said it planned to equip pharmacies nationwide with computers for qualifying patients and tracking expenditures on medicine in the Medicare drug program.

The plan raised many questions, including how such a system will co-exist with the systems chains are now installing.

In other areas:

- Eckerd was among chains emphasizing direct product profit analysis, made possible by computer automation.
- Rite Aid and CVS joined chains testing electronic article surveillance systems for controlling shrink.
- Pay Less NW launched an electronic funds transfer test. Consumers at checkout debit their accounts using automatic teller bank cards and special ID numbers.

The western chain—which has used a satellite network primarily for in-store radio—began broadcasting a once-a-month video magazine for training and informing store employees.

- Fay's began testing "image processing" in its accounts payable department. Invoices are digitized so they can be displayed in pictorial form on a CRT. It should make it easier to review and process the voluminous paperwork.
- Pay 'n Save employed a software application for labor scheduling of stores' associates, bookkeepers and receivers. It sought to better match work schedules with customer traffic flow.

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Annual Report Part I: Walgreens profile

Walgreens, ever aggressive, vows to stay No. 1

DEERFIELD, Ill. — At Walgreen Co. annual meeting in January, president Fred Canning had a funny remark for shareholders. "Hey, I have nothing against our fine competitors," he said, "but the word is 'kill,' right?"

Canning's joke drew laughs, but it also underscored the intensely competitive approach that has made Walgreens the nation's most successful drug chain.

Benchmark of industry

By almost any standard, the chain remains the benchmark of the industry: sales last year of nearly $5 billion, profits of $129 million, an aggressive growth and renovation program, market leadership in many cities, and perhaps the industry's biggest commitment to retail technology.

The key to Walgreens' success, perhaps, has been the ongoing refusal of its top executives and managers to relax. Walgreens continued to break new ground in fiscal '88.

Last year, the company opened 88 new stores, did major $100,000-plus remodelings on 60 others, tested point-of-sale scanning, beefed up inventory management systems, cut merchandise levels in stores and warehouses, sold off its Wags restaurant division, and boosted pharmacy sales more than 20 percent for the seventh year in a row.

The chain also boosted share in 17 of its markets around the country, going from No. 2 to No. 1 in Ft. Lauderdale and Cincinnati, and moving from No. 3 to No. 2 in Denver, New Orleans, Nashville and San Antonio.

If anything, this year will be even busier for the chain. Walgreens has allocated $150 million in fiscal 1989—30 percent more than last year—for new and remodeled stores, new technology and other improvements.

100 new stores in '89

"We've scheduled 100 new stores to open in fiscal 1989, and intend to increase this number in subsequent years," said chairman and chief executive Charles Walgreen III. "As a matter of fact, our plan is to open a total of 600 new stores over the next five years, which would be 40 percent of our current store base.

"And that's not counting acquisitions, which we continue to aggressively pursue," Walgreen went on.

The chain will also step up its remodeling program this year, with 165 extensive remodels and 90 major pharmacy renovations.

A sizeable chunk of its capital outlay this year will also go toward major systems development, including point-of-sale scanning and SIMS, Walgreens' Strategic Inventory Management System.

Along those lines, Walgreens has begun the market-wide installation of front-end scanners in its more than 200 Chicago stores. They were being installed at the rate of three to four units a week beginning in March.

"That schedule will accelerate through the year and Chicago should be finished by December," said Canning. "We're pushing hard for chainwide completion by 1991."

Canning added that scanning was "No. 1 on our technology list." Its main benefits, he said, would be improved inventory control, lower rates of out-of-stocks, faster and more accurate

Walgreens' SIMS project is also high on the priority list. The system's aim is lower inventory investments through higher turn rates and better control of forecasting, buying, warehousing and merchandising.

The first phase of SIMS will be established late this spring with the completion of a new electronic purchasing system for buyers, Walgreen said. That system will eventually be linked to other new systems in the distribution centers and stores installed over the next four years.

"By the early 1990s we expect to 'see' every piece of merchandise in our entire pipeline, from the time we order it until the time it's sold," the chairman said. "This ability to know where merchandise is at is the key to reducing inventory levels, reducing shrink, and delivering merchandise to our stores at the lowest possible cost."

Walgreens is also investing heavily in satellite communications, and now has antennas installed on the roofs of about 400 stores. The satellite system will connect virtually all stores, offices, distribution centers and photofinishing studios by 1990, according to the company.

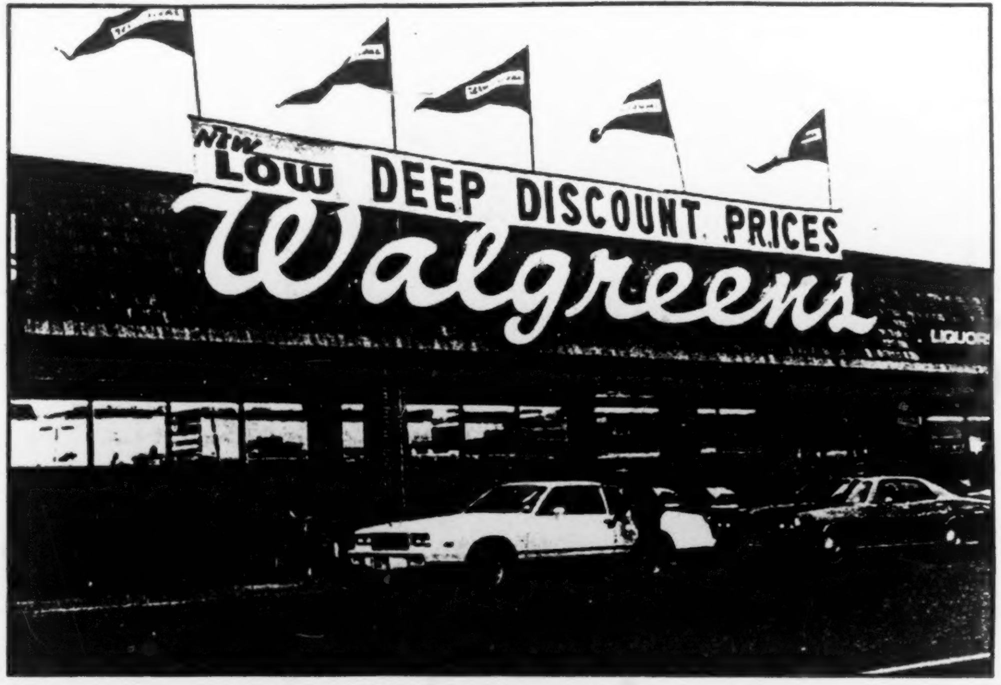
When it does, the chain will use it to piggyback a host of messages and relays, including its Intercom nationwide pharmacy computer network, closed-circuit television, electronic mail and other communications. Said Walgreen, "We'll also have the ability to broadcast high-quality background music—perhaps interspersed with a few well-made commercials that promote some special products we're carrying."

Marketing shifts

Meanwhile, Walgreens is making some shifts in its marketing efforts. For one thing, it is gearing more of its advertising toward teens, with newer promotions for cosmetics, nail care, audio tapes, soft drinks and candy. In 1989, the company will spend more than 15 percent of its advertising budget on television and radio for the first time in its history.

Walgreens is also targeting the labor crunch as never before. Canning said recruiting and training store- and management-level people—especially from the shrinking base of young people—will be the company's toughest challenge going into the next decade.

"Walgreens has two major advantages in hiring: financial stability and growth," Canning noted in January. "Since 1978 we've added 31 districts. That's a 76 percent growth rate just in district managers."



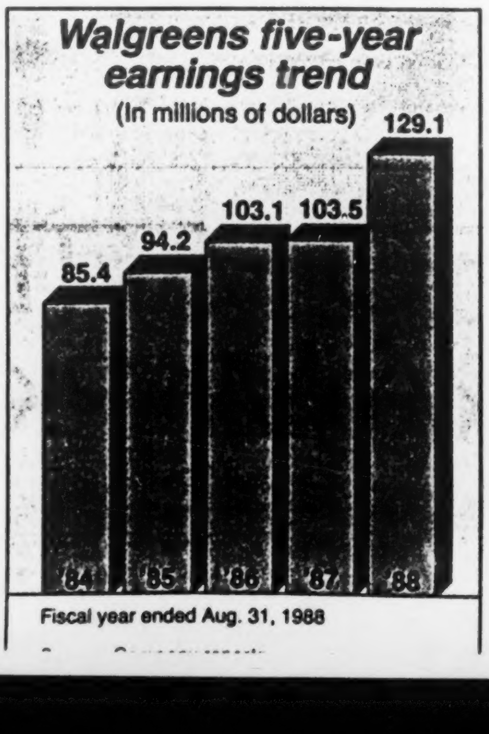
Walgreens increased share in 17 markets this past year.

Walgreens at a glance

Name: **Walgreen Co.**
Headquarters: **Deerfield, Ill.**
Officers: **Charles R. Walgreen III,** chairman and ceo; **Fred Canning,** president and chief operating officer.
Sales: **$4.88 billion**
Store count: **1,444 as of March 31, 1989.**
Average store size: **9,500 square feet (selling).**
Market: **Midwest, Southeast, Southwest, California and Massachussetts.**
Highlights: **Hit $129 million in net earnings; extended SIMS inventory automation program; opened 88 new units; tested POS scanning; sold Wags restaurant division; former Medi Mart stores in Massachussetts contributed to profits.**

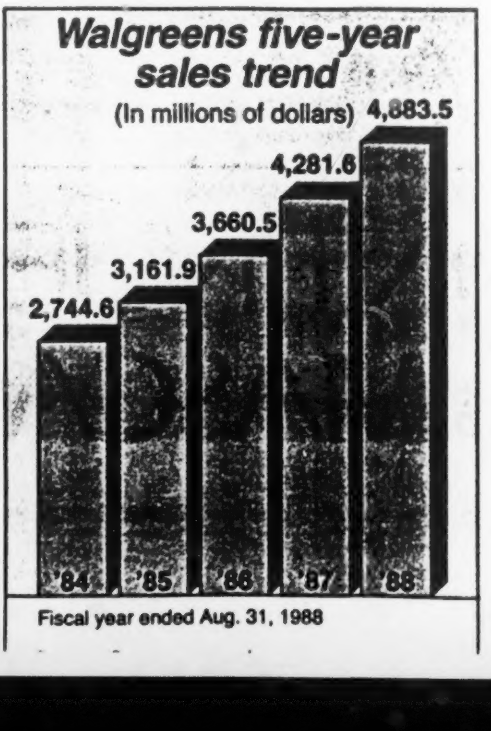
Charles Walgreen III (l.) and Fred Canning (r.) set aggressive tone at nation's leading drug chain.

Walgreens five-year earnings trend



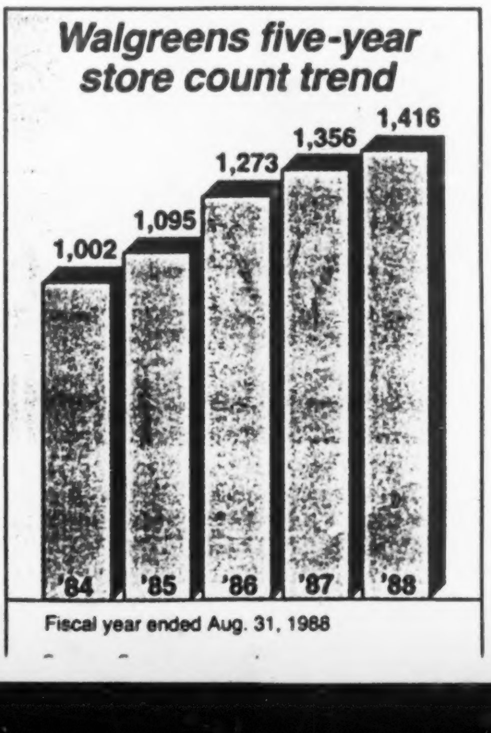
Fiscal year ended Aug. 31, 1988

Walgreens five-year sales trend



Fiscal year ended Aug. 31, 1988

Walgreens five-year store count trend



Fiscal year ended Aug. 31, 1988

Decentralization is keynote for American

IRVINE, Calif. — For American Stores, it has been a busy year. The huge retail conglomerate has pushed through some major operational and structural changes, fought to acquire Lucky Stores, returned to a dual marketing structure for its Osco and Sav-on drug store divisions, and re-entered the Florida market with a new, separate store division called Jewel Osco of Florida.

In a major management switch, American replaced Dick George and Scott Bergeson as president and chairman of Osco last September. In their places, the firm named Longs Drug Stores veteran Dick Scott and former executive vp Terry Hanson as chairman/chief executive and president of its drug store division, respectively. Osco and Sav-on now operate under the company's new American Drug Stores corporate umbrella.

The appointment of Scott last May—originally to head Osco's western store division, and later to head all Osco and Sav-on stores nationwide—signaled American's frustration with Osco's disappointing earnings performance since its acquisition in 1984 as part of the Jewel/Osco package. It also marked a shift in strategy for the 658-unit drug store group, away from efforts to consolidate all aspects of operations and merchandising nationwide.

Instead, the company shifted back to a more divisional approach. Although all major buying activities remain concentrated in Osco's eastern headquarters in Oak Brook, Ill., both eastern and western groups now have greater local autonomy.

In line with the change, American Drug Stores has begun restoring the Sav-on logo to its western drug stores, including some former Skaggs units. The chain has already begun replacing the old Osco signs in those stores, and is expected to complete the change-over in July.

The shift is both a recognition that some aspects of merchandising and operations cannot be fully consolidated, given the big differences in drug store retailing in the East and West; and perhaps a reflection of Scott's own management style, which emphasizes a more decentralized approach to decision-making than that of Dick George. Interestingly, Scott has remained based at American Drug Stores' western regional office in Anaheim, Calif., while Hanson works out of Oak Brook.

Scott moved quickly to beef up his management team, naming former Longs executive Dick Boyd as senior vp-pharmacy operations, and Dale Bystrom, another Longs veteran, as vp-merchandising.

Founder modifies duties

American Stores reached another milestone in January 1989, when company founder L.S. "Sam" Skaggs stepped down as chief executive to take a less active role at the age of 65. Skaggs, who remains board chairman, has been replaced as ceo by vice chairman Jonathan Scott.

Scott, who last served as chairman-ceo of the company's American Superstores division in the eastern U.S., was with the Albertson's supermarket chain in 1962 when he helped Skaggs develop some of the nation's first food/-drug combo stores.

Alan Stewart, former president and chief operations officer of American Superstores, was elevated to president and chief operations officer of American Stores at the same time.

Much of the company's effort over the past year has been focused on the attempted acquisition and consolidation of Lucky Stores. American agreed to purchase Lucky for $2.5 billion last June. It then promptly sold Lucky's 95-store Kash n' Karry chain in Florida, as well as its 38 stores in Arizona, to raise capital to help pay the debt incurred by the deal, and to concentrate on merging Lucky's 340-store operation in California with its own Alpha-Beta store division. The latter operates 252 supermarkets and combo stores in the state.

The consolidation of the two formerly competing chains was to have been completed last summer and fall. Citing antitrust considerations and the possibility of higher grocery prices for California consumers, however, state attorney general John Van de Kamp won a preliminary injunction blocking completion of the merger last September.

On appeal, the ruling was overturned a month ago, clearing away a major roadblock and effectively freeing American Stores to merge advertising, buying, distribution and other functions of the Lucky and Alpha Beta.

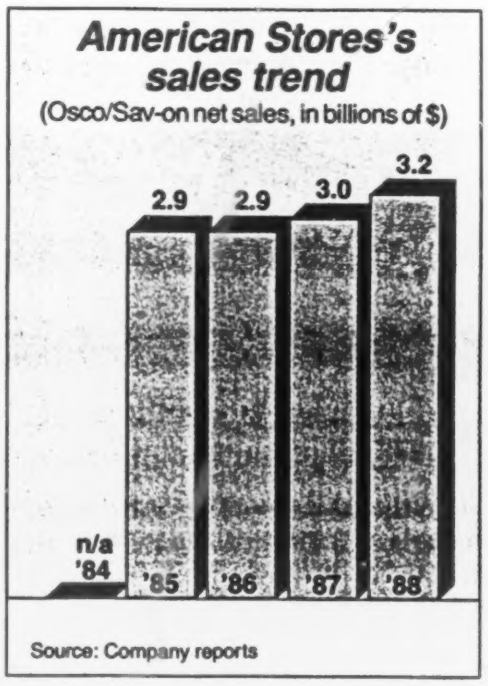
However, Van de Kamp may still sue to block the company from selling or buying stores, and he has indicated he will take the matter to a higher court to prevent what he says will be monopolistic conditions for California shoppers.

Meanwhile, on the other side of the country, American Stores broke new ground in March with the opening of a new combo store prototype in the Tampa Bay/Clearwater area. Five years in the making, the first new Jewel Osco superstore features a pharmacy and a broad merchandise mix in a 75,000-square-foot setting.

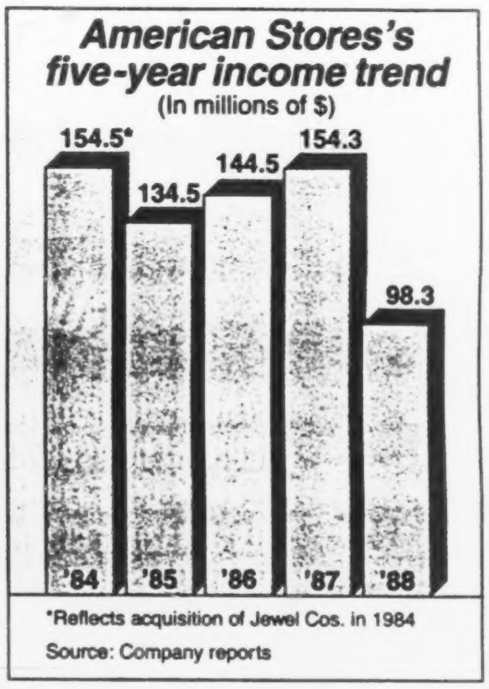
The store is the first of three or four that will open this year in Florida under the company's new Jewel Osco of Florida division. Mark Skaggs, who worked his way up through the ranks at American's Skaggs Alpha Beta group in Texas and is the son of Sam Skaggs, is president of the division.

American Drug Stores at a glance

Name: **American Drug Stores**
Operating divisions: **Osco Drug, Sav-on**
Headquarters: **Oak Brook, Ill.**
Officers: **Dick Scott,** chairman/ceo; **Terry Hanson,** president/chief operations officer.
Sales: **$3.2 billion**
Store count: **658**
Average store size: **21,376 square feet** (16,684 selling)
Market: **Nationwide**
Highlights: **Election of Scott and Hanson as top officers; return of Sav-on logo in western stores; management changes; 31.3 percent improvement in drug store operating earnings, to $148.3 million in fiscal '88.**

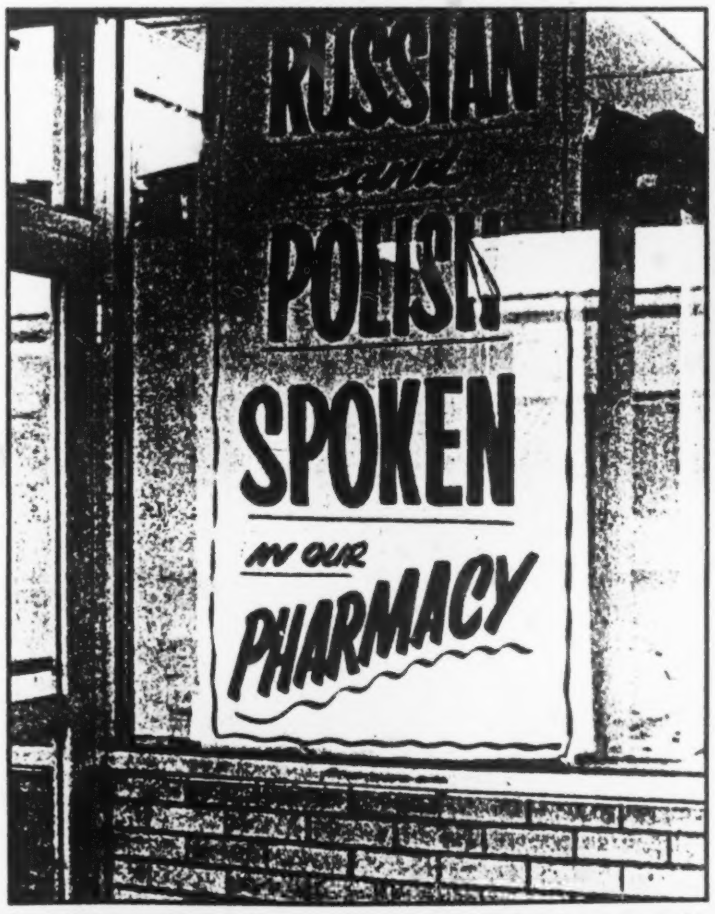


Source: Company reports



*Reflects acquisition of Jewel Cos. in 1984

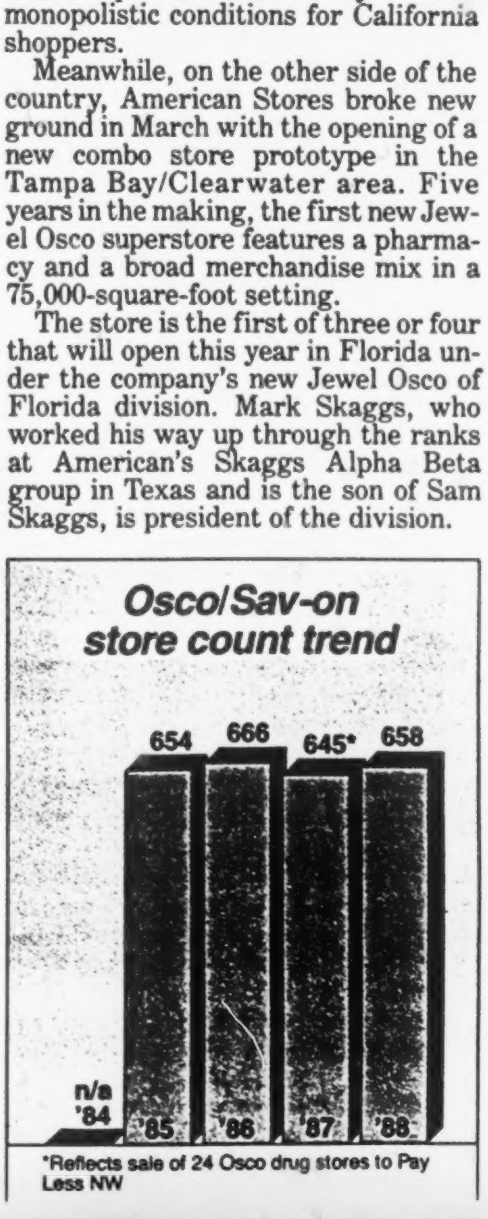
Source: Company reports



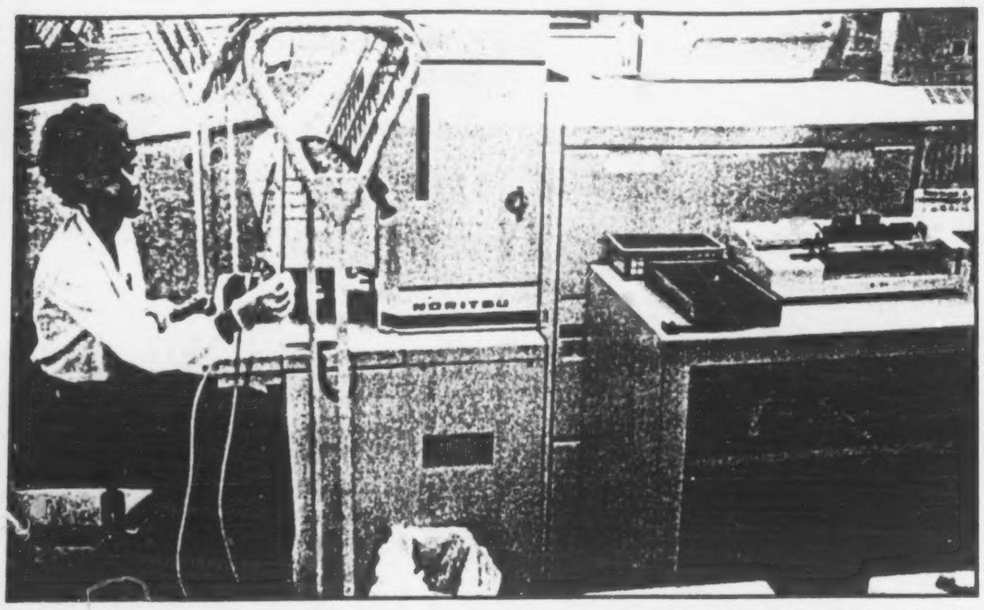
In a Chicago Osco, pharmacists speak foreign languages to communicate better with ethnic residents in the neighborhood, and gain their trust.

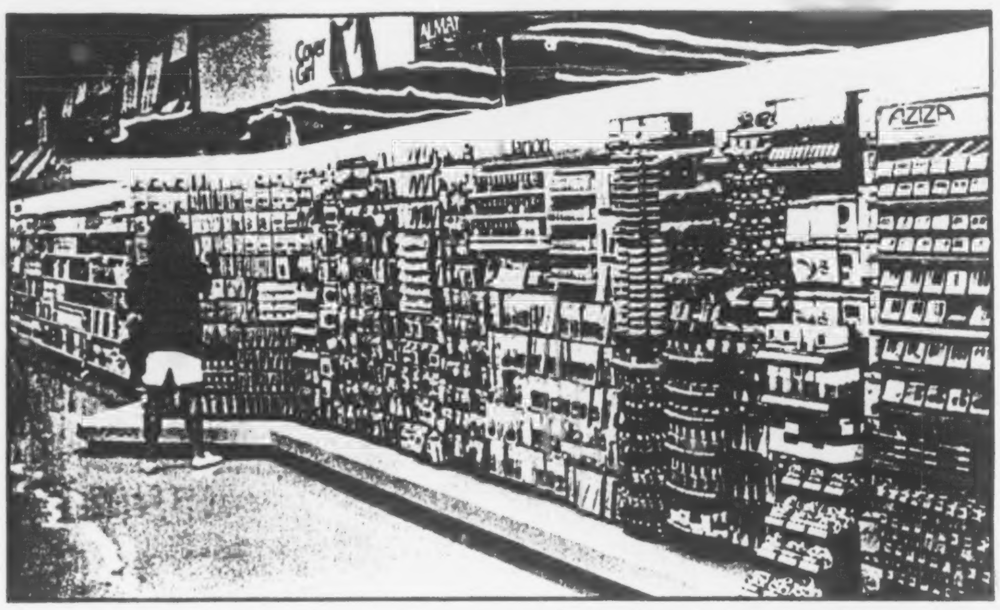
Sav-on
Osco Drug
WINDEX

Recognizing the long-standing popularity of the Sav-on name, American decided to drop combo names like the above and give consumers back the familiar Sav-on name that they've known for years.



*Reflects sale of 24 Osco drug stores to Pay Less NW


Eckerd's 25-year experience as a photo processor has enhanced its expansion in the one-hour photo business.



An open cosmetics department encourages self-service, but a cosmetician is also available.

Eckerd meets goals, builds on solid strengths

Eckerd at a glance

Name: **Jack Eckerd Corp.**
Headquarters: **Largo, Fla.**
Officers: **Stewart Turley,** chairman and president; **John W. Boyle,** senior vp- finance; **Harry Lambert,** president, Eckerd Drug; **Ronald D. Peterson,** executive vp-marketing and merchandising, Eckerd Drug.
Sales: **$2.9 billion.**
Store count: **1,580**
Average store size: **8,640 square feet**
Market: **14 states in South, Southwest and Mid-Atlantic: Ala., Del., Fla., Ga., La., Md., Miss., N.J., N.C., Okla., S.C., Tenn., Texas., Va.**
Highlights: **Eckerd's rapid remodeling program continued in 1988, with 267 conversions completed. Chain also doubled the number of one-hour Express Photo departments, from 64 in 1987 to 126 last year. Emphasis was also placed on increasing number of stores capturing item-movement data; the count was 200 stores at fiscal year end.**

CLEARWATER, Fla. — Jack Eckerd Co. uncorked another year of solid performance in 1988, despite stepped-up competition in many of its key markets.

The chain posted a sales increase of more than 5 percent, to $2.9 billion, as management continued to emphasize core categories and service designed to attract new customers and build loyalty.

Profits also rose. For the year just ended, Eckerd's FIFO earnings before interest and taxes passed the $200 million mark for the first time, according to Stewart Turley, chairman and president.

By meeting its sales and profit goals, the chain was able to maintain its heavy investment in store remodels and technology, while accelerating repayment of the debt acquired in its 1986 leveraged buyout.

Turley said Eckerd has also been able hold its strong, veteran management team and to attract "better and better people to the company" because of the broad participation in ownership that was initiated at the time of the LBO.

The company has also broadened the participation of associates in the strategic planning area. According to Turley, management has gone out of its way to include all levels in its strategic task forces, from store level personnel to senior vps.

Summarizing, Turley said the company's success has come from many different areas, rather than "one bold stroke," and for that reason he believes Eckerd is "less vulnerable to pendulum swings" in the future.

These are some of the key areas in which Eckerd has moved vigorously in the past year:

- The company virtually doubled the number of one-hour Express Photo departments in its stores, going from 64 to 126 units. Photo is one of three key service departments, along with pharmacy and cosmetics. All three have been promoted heavily as the chain seeks to build customer loyalty in highly competitive retail markets.

Turley says Eckerd has been able to achieve success with the one-hour concept where others, including K mart, have withdrawn because the company has been in the film processing business for 25 years, and now maintains seven photo plants around the country. "The advantage of having the technological base within the company has made it easier for us to expand in the one-hour business," Turley noted.

- In the recent fiscal year, Eckerd expanded to 200 the number of POS installations. The stores that were added this past year enabled the company to begin developing regional models for item movement data, which in turn has allowed the chain's buyers and merchandisers to tailor the mix to different regional areas.

In addition, the chain has also stepped up its involvement in electronic data interchange (EDI) with suppliers. The goal is more timely inventory replenishment and faster turns, as well as a reduction in costly paperwork.

Eckerd is also refining its direct product profit models. The aim of DPP, which Eckerd got involved in two years ago, is to develop a more accurate system of measuring the profitability of individual products.

Eckerd is fully computerized in its pharmacy departments, but Turley said the chain has taken on a staff of some 30 technical people just to work on the next generation of pharmacy software.

- While Eckerd has used its investment resources to reinforce what Turley called the "infrastructure" of the company, it has been less active in store expansion. Store count remained flat at 1,580 units in 1988, as store openings and acquisitions matched closings. However, Turley said store growth is being stepped up, and the company expects to add 50 units in the coming year.

- In its markets, Eckerd has seen improvements in the Texas economy in the past year, while Louisiana—more dependent on oil-related industries—has remained economically stagnant, according to Turley. He said the chain will maintain its position in that state, however, given the cyclical nature of market economies.

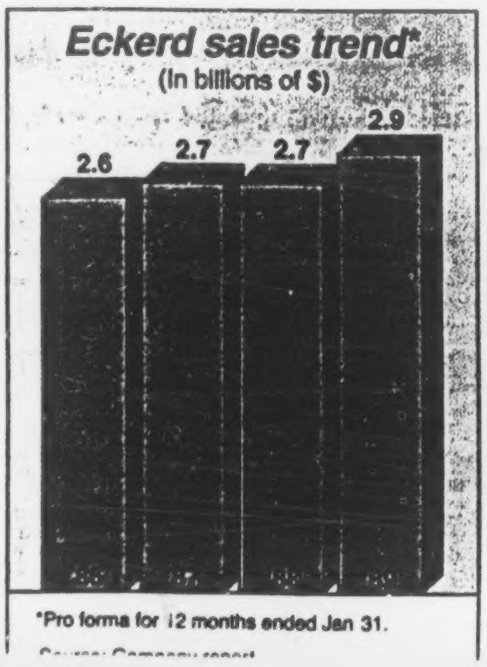
- The chain has completed a new pharmacy prototype that it will begin to roll out. The new layout, a result of the work of the pharmacy task force, removes the counter in front of the department, where clerks greet customers and ring up transactions. As a result, customers will be able to more directly approach pharmacists behind the main counter. The aim is more consultation and greater patient service.

The department has also been redesigned to eliminate pharmacists' steps and increase efficiency.

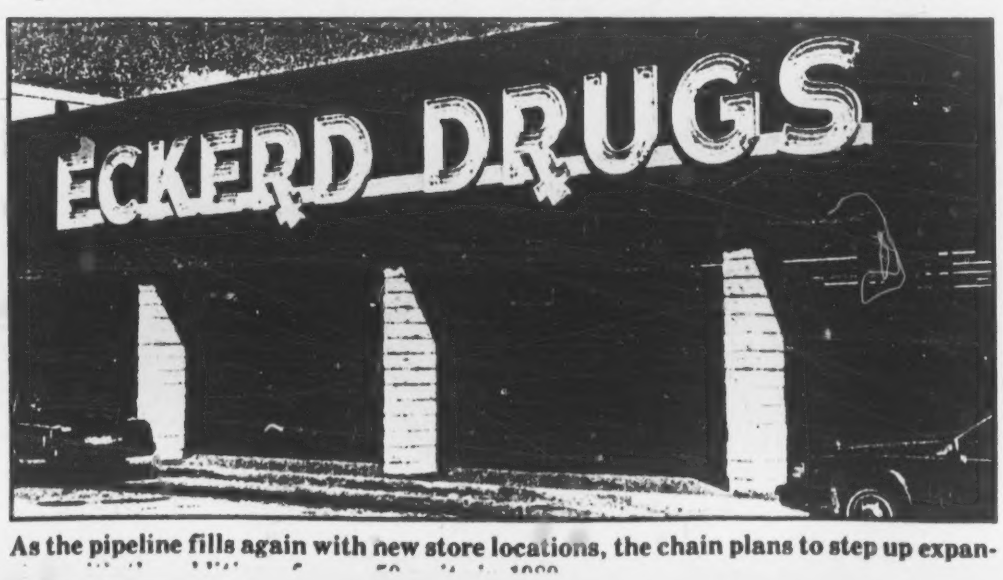
- Eckerd's remodeling program retains its brisk pace. The chain remodeled 267 stores in the most recent fiscal year and will redo over 200 in 1989.

- Eckerd also wound up the year with 13 VisionWorks super eyecare centers in Florida and North Carolina. Recently it signed a letter of intent to acquire Peoples' three EyeCity super optical stores in the Washington, D.C. market. The Peoples units will be converted to VisionWorks.

Eckerd sales trend*
(In billions of $)

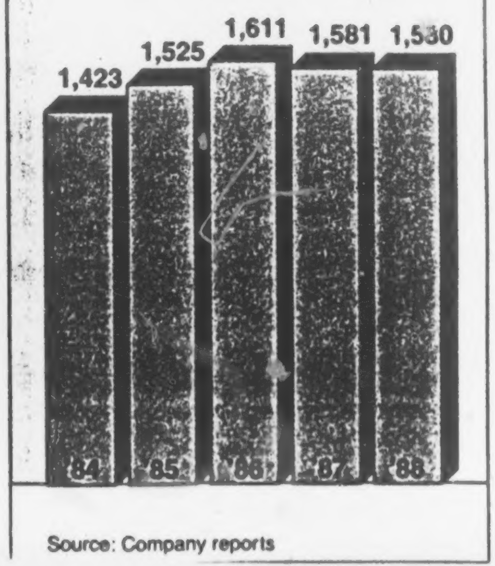


*Pro forma for 12 months ended Jan 31.



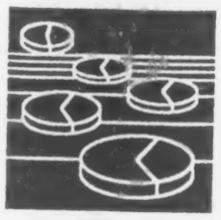
As the pipeline fills again with new store locations, the chain plans to step up expan-

Eckerd store count steady



Source: Company reports

Rite Aid sets rapid pace on chain takeover trail



SHIREMANSTOWN, Pa. — Rite Aid has stirred its fair share of excitement lately, buying 533 Gray Drug Fair and SupeRx stores in 1987, the Begley Co. in 1988, and, this March, reaching an agreement with Imasco Ltd. to acquire 114 Peoples (former Lane Drug) stores in the Midwest.

When this latest acquisition is completed, Rite Aid will have about 2,290 stores, lengthening its lead as the nation's largest drug chain in terms of units. The Peoples stores, mainly in Ohio (103) but also in Pennsylvania and Indiana, will give Rite Aid dominance in Canton and Toledo and enhance its presence in other markets, especially in Ohio. The deal also includes a 100,000-square-foot warehouse in Toledo; the chain currently operates five distribution centers.

Coincidentally, within days of the Imasco agreement, an investment group, led by Rite Aid chairman Alex Grass and including Grass family members and Super Rite Foods executives, entered into a definitive agreement to buy the Baltimore-based food wholesaler and retailer. Rite Aid maintained an equity holding of 46.8 percent in Super Rite. Analyst Kimberly K. Walin of Prudential-Bache expects anticipated proceeds from the sale of Rite Aid's interest, along with short-term debt, will be used to pay for the Peoples stores acquisition. She estimates that Rite Aid will pay between $65 million and $70 million, or roughly book value, for the Peoples units—"a very attractive price."

Integration of the 114 Peoples stores is expected to go relatively smoothly, in part because of the similarity in store size and merchandise mix of Rite Aid's and Peoples' stores. Rite Aid's average store size is about 6,500 square feet, and the Peoples' units, about 8,000 to 10,000 square feet. The Peoples' units, all equipped with pharmacy computers, generate about 40 percent of store volume from prescriptions, compared with 40.5 percent at Rite Aid.

Integration of some earlier acquisitions—especially acquired SupeRx and Gray Drug Fair stores in Florida—has been somewhat rocky, due to several factors. Competition in Florida was greater than expected, and Rite Aid was not a familiar name in the Florida market. Moreover, "Rite Aid's operating strategy of everyday low prices is different from the highly promotional situation in Florida," said one analyst. "It's taken longer than expected for customers to appreciate the advantages of Rite Aid."

Downsizing and remodeling of acquired stores, as well as extensive liquidation of merchandise not compatible with Rite Aid's mix, contributed to depressed third-quarter results. And rapid installation of data-collection computers in stores pushed up related costs.

Rite Aid cited some of these factors, along with declining videocassette rentals, when it posted its third-quarter results, which showed a decline of 19.7 percent in net income for the drug store segment. Although comparable-store sales for base stores increased 7.3 percent for the quarter, comparable-store sales for acquired stores were down 9 percent compared with last year's third quarter.

By year end, however, Rite Aid had managed to round the corner on performance of acquired stores, and fourth-quarter results showed comparable-store sales in acquired units turning positive.

Retail drug segment sales for the fourth quarter rose 16.6 percent, to $778.91 million, from $667.97 million. Net income decreased slightly, to $33.5 million for the quarter, from $33.9 million a year ago.

For the year, drug segment revenues grew 14.6 percent, to $2.7 billion, from $2.4 billion. Net income was $87.7 million, compared to $86.1 million. Same-store sales for core Rite Aid units increased 7.9 percent for the quarter and 7.1 percent for the year.

Integration of the 114 Peoples stores is expected to go relatively smoothly, in part because of the similarity in store size and merchandise mix of Rite Aid's and Peoples' stores.

The SupeRx and Gray Drug Fair acquisitions bolstered the chain's positions in Florida amd the mid-Atlantic states, and the acquisition of Begley's drug stores (currently 39 units) strengthened its position in Kentucky. The Begley deal also brought Rite Aid about 140 drycleaning stores, the nation's largest drycleaning chain.

Currently, Rite Aid operates in 22 states and Washington, D.C., and has the largest store count and pharmacy volume in New York, New Jersey, Maryland, Delaware, West Virginia, Ohio and Kentucky markets.

In technology, the chain is pushing on with installation of personal computers in store managers' offices, but has put its scanning rollout (600 stores have been equipped) on the back burner.

In addition to its imposing acquisition activity, Rite Aid has made news in another arena, championing retail pharmacy's interests against third-party administrators' attempts to lower reimbursement levels.

Using detailed company figures, chairman Alex Grass showed how some third-party plans that slice 10 or even 20 percent off AWP (average wholesale price) have resulted in bottom-line losses for pharmacy. "We don't want to see ourselves having to raise the price of prescriptions to customers or the price of our merchandise in our stores to subsidize third-party plans," Grass said. Rite Aid, he warned, was prepared to reject third-party business that didn't contribute to its profit line.

Rite Aid, 40 percent of whose phar-

as good as its word: The chain, which had already dropped several plans it judged uneconomical, including Humana of Kentucky and Equicor of Virginia, threatened to pull out of the Pharmaceutical Card Systems (PCS) program in Baltimore because it attempted to lower reimbursement levels. Equicor in Virginia and PCS in Baltimore subsequently reverted to former reimbursement levels. And in early '89, Rite Aid said it would no longer honor two other PCS plans: Ohio University Insurance Plan Administrators and Cigna Healthplan of Pennsylvania, New Jersey and Delaware.

On April 5, Martin Grass was appointed president and chief operating officer of Rite Aid Corp.

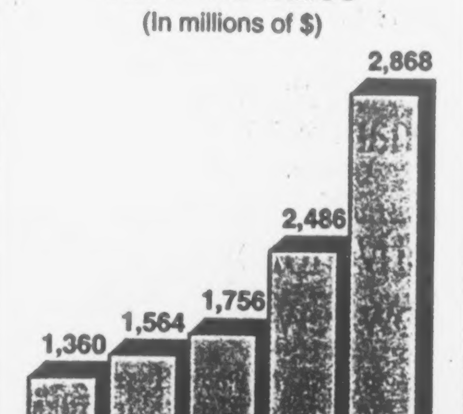
Rite Aid. . .made news. . . championing retail pharmacy's interests against third-party administrators' attempts to lower reimbursement levels.

RITE AID PHARMACY

Rite Aid storefronts are known to consumers in 22 states.

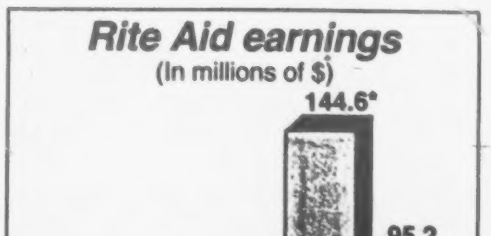
Rite Aid at a glance

Name: **Rite Aid Corp.**
Headquarters: **Shiremanstown, Pa.**
Officers: **Alex Grass,** chairman and ceo; **Martin Grass,** president and chief operations officer.
Sales: **Drug segment, $2.7 billion; net income: drug segment: $87.7 million.**
Store count: **2,184 (not including pending acquisition of Peoples units)**
Average store size: **About 6,500 square feet**
Market: **22 states (from N.H. to Fla. and west to Ind.) and Washington, D.C.**
Highlights: **Acquired 39-store Begley Co. in Ky.; acquired 114 Peoples (former Lane Drug) stores in Ohio, Pa. and Ind.; took the lead in focusing on inadequacies of third-party reimbursement plans.**



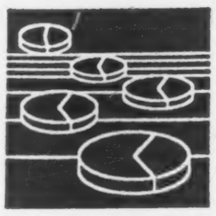
Fiscal year ended March 4, 1989.
Source: Company reports

Prescriptions



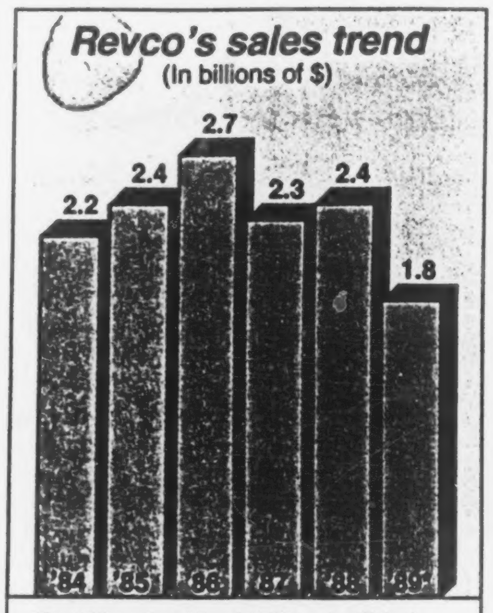
*Includes a one-time adjusted gain of $47.1 million from the sale of discontinued operations and the cumulative effect of an accounting change of $3.7 million.
Fiscal year ended March 4, 1989.
Source: Company reports

Under new management, Revco makes strides



TWINSBURG, Ohio — Revco D.S. has gone through the kind of year that gives retail executives nightmares. Like Mark Twain's famous retort, however, reports of Revco's impending demise appear to have been exaggerated.

In many ways, Revco is fundamentally more sound than it has been in years, despite its financial crisis. Over the past year, it has stripped itself of more than 100 unprofitable stores and its disastrous connection with Odd Lot Trading. It has welded together an experienced, broad-based new management team under chairman and chief executive Boake Sells. It has won back most of its suppliers, negotiated new credit packages and spruced up stores, and developed a new store format for the 1990s. It has launched a national image ad campaign in *USA Today*, and boosted store sales as a result.


Revco's sales trend
(In billions of $)

*First 36 weeks of fiscal 1989, ended Feb. 4.

Source: Company reports

Root of the problem

Those changes came out of utter necessity. In 1988, all the problems stemming from the company's debt-laden, poorly conceived leveraged buyout and its loss of strategic vision in the 1980s came to an ugly head. In successive waves, Revco's mounting debt pressures, supply problems and shrinking sales hit the company with staggering force as the year progressed, swamping its already shaky financial underpinnings and finally forcing it into the shelter of U.S. Bankruptcy Court in late July.

Revco's bankruptcy was the first major failure of an LBO, and it sent a shock wave through the close-knit ranks of the chain drug industry. The company's mounting inability to meet its debt payments—which culminated last June when it defaulted on a $46 million interest payment to its bondholders—was really the final straw for many of its bondholders and supplier/ creditors. It led directly to Revco's filing for Chapter 11 protection on July 28.

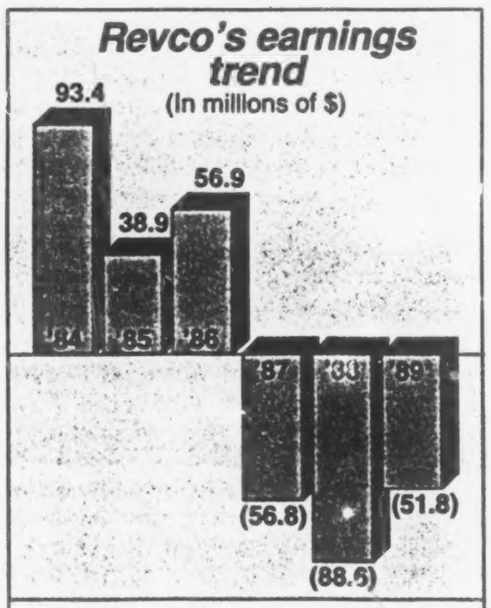
Revco's financial crisis arose directly from its ill-fated LBO in December of 1986. At that time, the company sold itself to a team of lending banks and junk bond investors with a set of projections for future performance that were, in retrospect, absurdly optimistic.

The buyout added more than $1 billion to Revco's debt structure, and in the months that followed, the company fell farther and farther behind in its struggle to meet interest payments with inadequate cash flow.

Chain's deeper problems

In addition, the chain was already saddled with deeper problems. Many of its stores had long been neglected, and were in need of major renovation. Its merchandise mix and image as a health care provider had been scrambled by years of experimentation with deal merchandise obtained through its Odd Lot Trading subsidiary, resulting in stores that were cluttered with speed tables and knockdowns. Operating costs for its far-flung network of 2,000 stores were high, while sophisticated information, merchandising and distribution systems to effectively manage that huge network were often lacking.

To make matters worse, support for Revco from its suppliers was steadily eroding as its financial pressures mounted and payments were squeezed or strung out. The supply problem turned into near-disaster following the Chapter 11 filing, as vendors burned by a freeze in payments temporarily cut off credit agreements with the chain and demanded money up front for new shipments.


Revco's earnings trend
(In millions of $)

*First 36 weeks of fiscal 1989, ended Feb. 4.

Source: Company reports

The supply crisis has been an ongoing challenge and a top priority for Revco since last summer. At its worst late last summer and fall, the cutoff in supplies resulted in major out-of-stocks in stores and led to a decline in sales. Although shipments are not yet at 100 percent, they have returned to "near normal" conditions, according to a company spokesperson.

"Advance payments to vendors enabled the company to begin to restore vendor confidence and return terms to normal," noted the company in its 10Q report for the recently completed third quarter. "However, the return to normal conditions was slower than originally anticipated, as warehouse service levels dropped from a high of 90 percent in the first quarter to 54 percent midway through the second quarter, resulting in merchandise out-of-stock conditions and the loss of both sales and customers."

Revco is in the midst of a total overhaul of merchandise and distribution systems, and is improving training of store-level employees. Inset: Boake Sells, chairman and chief executive.

Service levels have since gone up, leveling off at 89 percent by the end of the third quarter in early February 1989, the report added. Sales and vendor confidence have also rebounded, it stated.

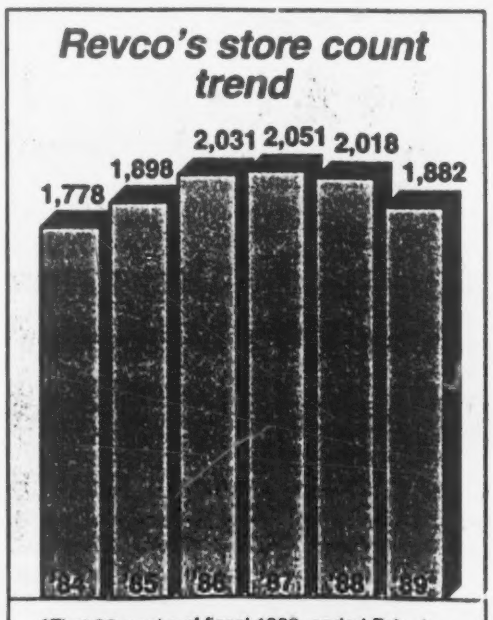
To come out of bankruptcy, Revco must come up with a payment plan for its $1.5 billion in liabilities that its creditors and the court can live with. In the meantime, Sells has infused the company with a clear-cut set of priorities. Among them: clean, well-merchandised and well-stocked stores; a renewal of Revco's retail mission and image; the creation of operational systems where few existed before; an overhaul of Revco's outmoded merchandise mix and distribution system; better-trained and more motivated store employees; and the development of an all-new store prototype to bring the chain into focus as a modern, convenient retailer of health- and beauty-care basics.

'I am pleased with our progress to date," Sells said. "Our stores are cleaner and better stocked than they have been in some time. Revco's banks and vendors have shown they believe in our future. And most important of all, our employees have weathered the storm and continue to be focused on. . .the future.'

In a way, the bankruptcy filing signaled the final break between Revco's entrepreneurial beginnings under former chairman and co-founder Sid Dworkin, and its future as a leaner, more disciplined company under Sells. If the chain survives—and all indications are that it will not only endure but will again prosper—it will do so as a vastly different company.

Revco must still work to sharpen its image and boost customer counts, but a national ad campaign in *USA Today* has helped restore its health care image, and the refocused stores are beginning to draw back customers.

"I am pleased with our progress to date," Sells said in March. "Our stores are cleaner and better stocked than they have been in some time. Revco's banks and vendors have shown they believe in our future. And most important of all, our employees have weathered the storm and continue to be focused on the efforts that are still needed for the future."


Revco's store count trend

*First 36 weeks of fiscal 1989, ended Feb. 4.

Source: Company reports

Revco D.S. at a glance

Name: **Revco D.S.**

Headquarters: **Twinsburg, Ohio**

Officers: **Boake Sells**, chairman and ceo; **William Holmes**, executive vp and cfo; **Jim Adamson**, executive vp-marketing.

Sales: **$2.4 billion**

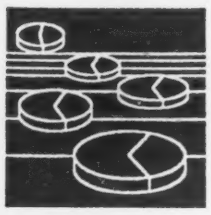
Store count: **1,882**

Average store size: **8,450 square feet**

Market: **Midwest, Southeast, Southwest, North Central, Northeast, Middle Atlantic.**

Highlights: **Revco declares bankruptcy on July 28, 1988; overcomes severe supply shortages; closes underperforming units; renews vendor relationships; achieves record results at Christmas.**

Thrifty grows through acquisition



LOS ANGELES — Following its $234 million acquisition of Pay 'n Save, Inc., Thrifty Corp. is now looking to fine-tune operations at its 1,039 stores companywide.

Chain strategy calls for technological advances that continue or go beyond the improvements made last year. In 1988, Thrifty improved pricing and inventory controls when it equipped 190 more stores with point-of-sale (POS) registers. Thrifty ended the year with nearly 400 stores on the POS system, and this year another 235 locations will be added.

Thrifty also installed its first bar code scanners at 12 drug stores in 1988, and expects to add over 100 locations this year. The chain anticipates all stores will be using scanners within four years.

The past year also saw Thrifty test its first satellite communications network between the corporate office and its drug and sporting goods stores. Designed to improve the efficiency and cost of data handling, the satellite system will be rolled out to 400 stores in '89.

Chain strategy calls for technological advances that continue or go beyond the improvements made last year. The chain says all stores will have scanners in four years.

Beyond technology, Thrifty is also looking to increase its drug store market share throughout its predominantly Western territory. In 1988 the chain opened 18 full-size Thrifty drug stores and completed the “Perfecto” remodeling effort, which improved site layout, lighting and displays. Thrifty also opened 13 of its downsized Thrifty Jr. stores, closing the year with some 71 in operation.

However, the chain was forced to retrench in some areas during the past year. At five Ralphs Grocery Company sites in Southern California, Thrifty closed its Jr. stores that were suffering from their small size, limited merchandise mix and sluggish sales.

Since the summer store closures Thrifty has renegotiated with Ralphs, and the drug chain will again link up with the grocery operator in what will be four former Giant locations. Unlike the previous deal, however, Thrifty will operate close to full-size stores and have greater autonomy from the grocery stores.

Thrifty also chose to pull out of a planned store in San Francisco's Haight-Ashbury area after the under-construction store was torched by an arsonist last fall. Although it remains unproven, blame for the blaze was directed at community groups that had fiercely opposed the store in an effort to preserve the area's artsy flavor.

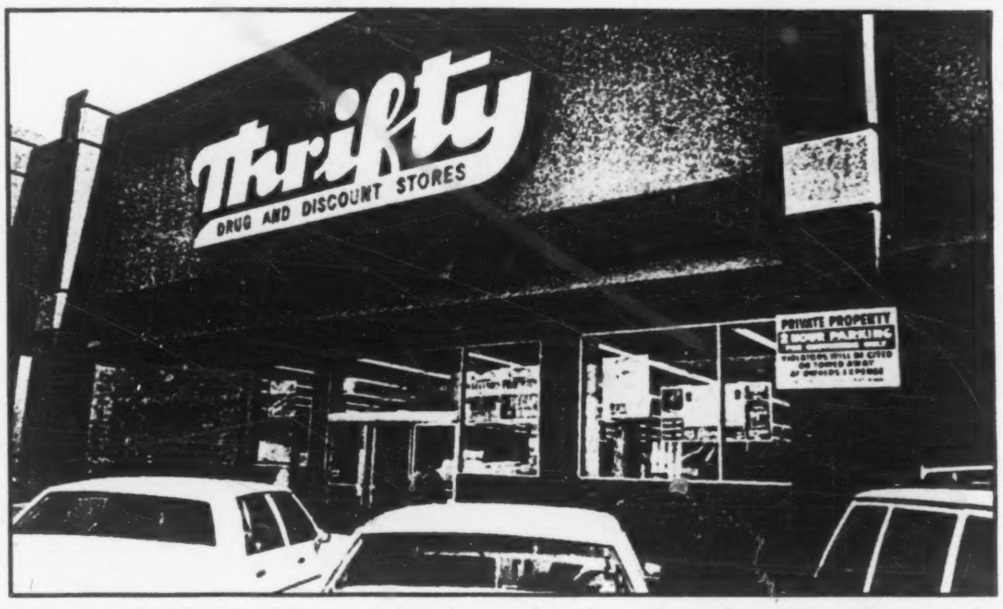
Looking ahead, Thrifty plans to add 46 drug stores this year, funded by a portion of Pacific Enterprises' proposed $590 million in capital expenditures. In the prior year, $624 million was allotted by the parent, with Thrifty grabbing $101 million (exclusive of the Pay 'n Save acquisition). While the total outlay this year will be lower, Thrifty should continue to get a fair share, since the company is one of Pacific Enterprises' leading subsidiaries.

Thrifty expects its plans and technical enhancements will keep the chain on its steady growth pattern. With the help of the Pay 'n Save move, Thrifty saw its sales climb from $1.84 billion in '87 to $2.40 billion last year. While sales increased 30 percent, operating income after taxes jumped 35 percent, to $66 million from $49 million in the previous year.

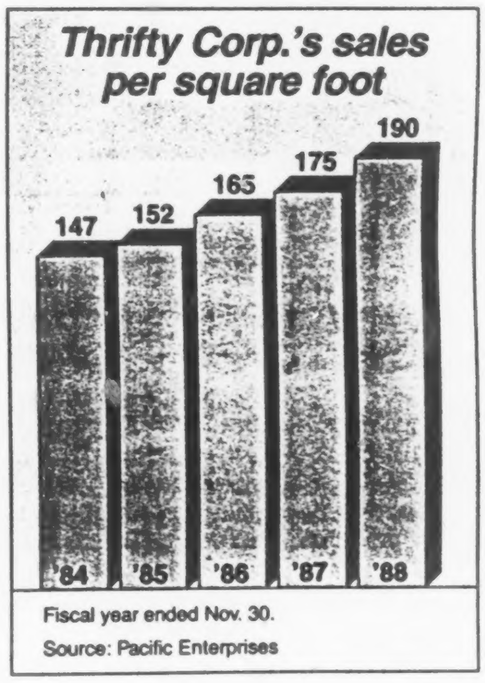
Thrifty at a glance

Name: **Thrifty Corp.**
Headquarters: **Los Angeles**
Officers: **Leonard H. Straus**, chairman and ceo; **Richard G. Eils**, president, chief operations officer, chief financial officer.
Sales: **$2.40 billion**
Operating income after taxes: **$66 million**
Stores: **768 Thrifty drug and discount stores, Thrifty Jr., and Pay 'n Save units (company also operates 38-store membership discounter Bi-Mart along with 233 sporting goods stores)**
Average drug store size: **19,000 square feet**
Market: **California, Oregon, Washington, Arizona, Idaho, Nevada, New Mexico, Utah, Wyoming, Hawaii and Alaska**
Highlights: **Thrifty acquired 110 Pay 'n Save drug stores and 37 Bi-Mart discount stores from financially troubled Pay 'n Save in a stock deal valued at approximately $234 million.**

Richard Eils

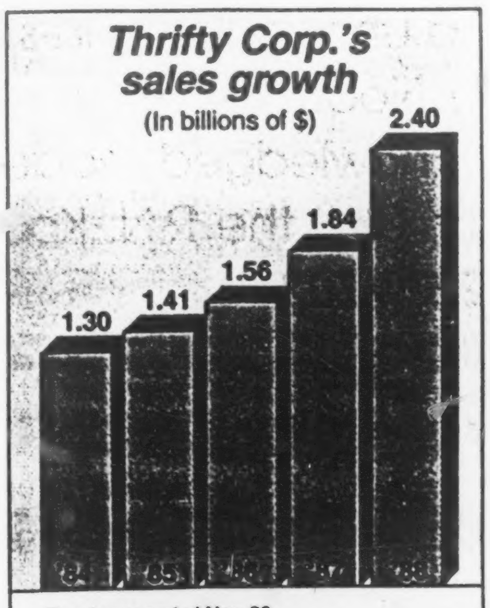


A key goal for Thrifty this year is to raise market share throughout its predominantly Western markets.



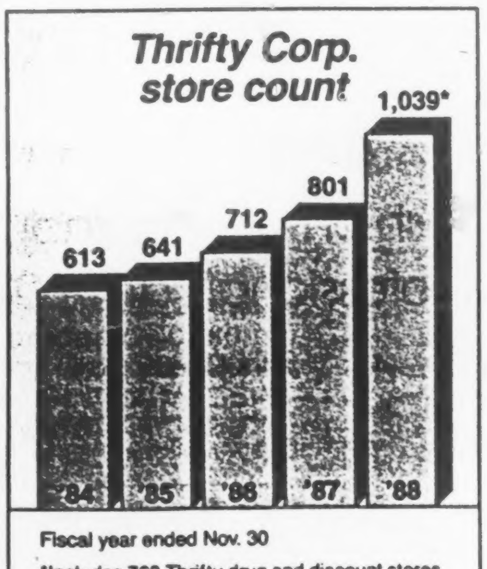
Fiscal year ended Nov. 30.

Source: Pacific Enterprises



Fiscal year ended Nov. 30.

Source: Pacific Enterprises



Fiscal year ended Nov. 30

*Includes 768 Thrifty drug and discount stores, Thrifty Jrs., and Pay 'n Saves; 38 Bi-Marts; 233 Big 5, MC and Gart Bros. sporting goods stores.

Source: Pacific Enterprises

Thrifty refines, integrates Pay 'n Save and Bi-Mart

SEATTLE — With Pay 'n Save under its wing for nearly one year, Thrifty Corp. is furthering integration of these stores, raising margins and overall profits.

The deal gave Thrifty 110 Pay 'n Save drug stores and 37 Bi-Mart discount stores, but the acquired company was not without problems. A leveraged buyout in 1984 had saddled Pay 'n Save with heavy debt, which even a later public offering could not quite overcome. (Thrifty did not acquire the Pay 'n Save, Inc. debt in the acquisition).

Additionally, the Pay 'n Save drug stores experimented with an unsuccessful merchandising switch that prompted customer unhappiness and confusion. The chain then returned to a traditional drug store approach under the direction of Gerald Nathanson, and recovery had begun when Thrifty made its acquisition.

Yet more changes were needed, and Thrifty quickly laid out a game plan for Pay 'n Save. Primarily, efforts included: implementation of Thrifty's management information systems; increased volume buying; third party business; and private label merchandising.

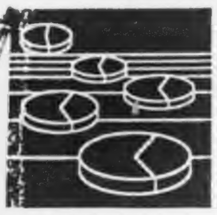
Thrifty also placed some of its management team at Pay 'n Save when Nathanson resigned a month after the acquisition. Thrifty allowed Pay 'n Save to continue functioning out of Seattle, but its managers got considerably less control.

Dick Eils, Thrifty president, filled the Nathanson slot with Thrifty senior vp Richard Dortch. With Thrifty since 1969, Dortch was made Pay 'n Save executive vp and general manager, while a like position was created at Thrifty for John Onestinghel.

With all these changes, Thrifty still recognized that the Pay 'n Save name was an opportune investment. The acquisition gave Thrifty rapid entry into markets where it had been weak, such as Washington, Oregon, Hawaii, Alaska and Idaho. Thrifty went so far as to change the names of 14 of its stores in the Pacific Northwest to that of the acquired chain.

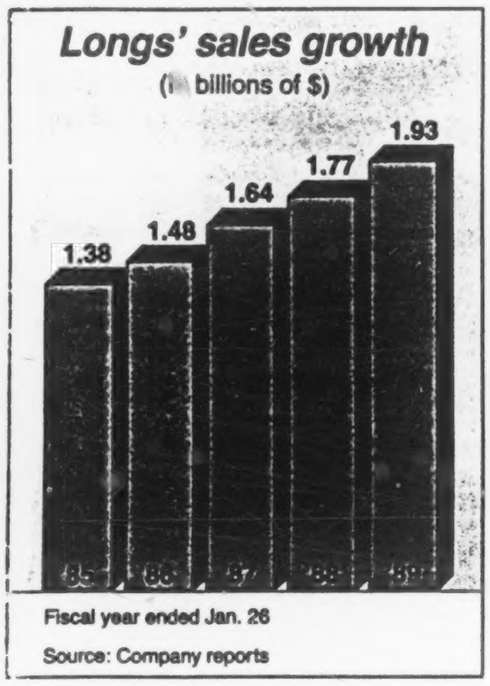
Thrifty is currently looking to refine and better integrate the Pay 'n Save and Bi-Mart stores. According to the parent company Pacific Enterprise's annual report, Thrifty plans to bring the Pay 'n Save and Bi-Mart stores “to a sound and profitable performance in 1989 through stricter controls, volume purchasing and traditional chain drug merchandising.”

Longs' autonomy effective in face of change



WALNUT CREEK, Calif. — Longs Drug Stores turned 50 in 1988, a year of many changes at the 236-store chain.

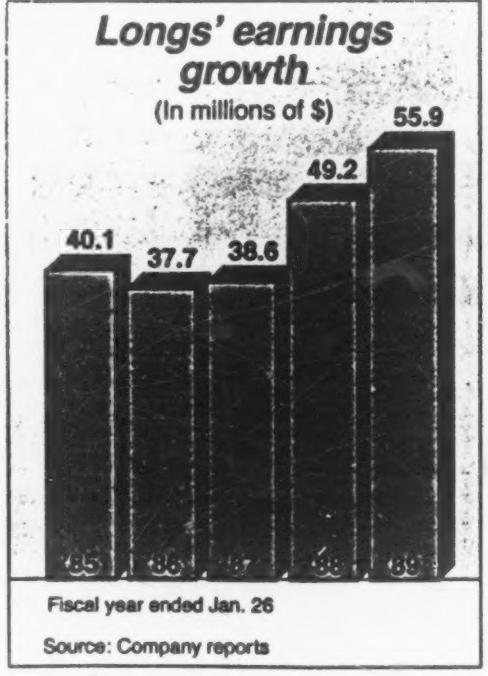
Its celebration began in May with an image campaign emphasizing class and nostalgia. During a four-week advertising blitz, Longs used a wide array of media to promote the event—then capped it by giving away a 1938 Buick to a lucky customer.



Longs' sales growth

Fiscal year ended Jan. 26

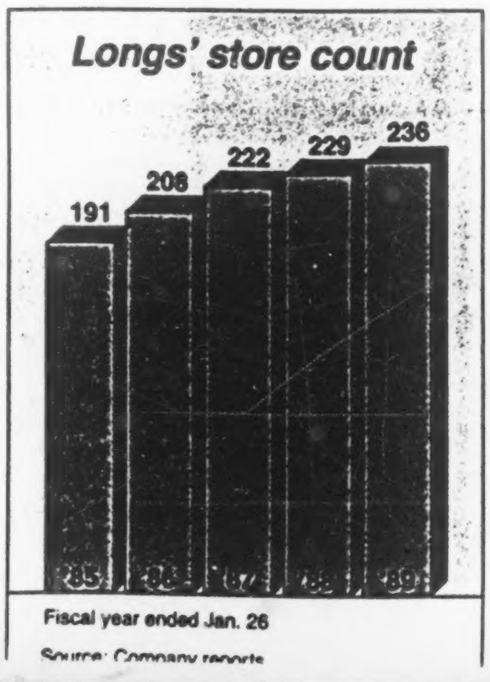
Source: Company reports



Longs' earnings growth

Fiscal year ended Jan. 26

Source: Company reports



Longs' store count

Fiscal year ended Jan. 26

Source: Company reports

Yet before the hoopla ended, executive vp Dick Scott left Longs to join Osco Drug Stores. His departure meant the absence of Longs' No. 3 executive, and led to other upper management losses as others followed Scott to the competition. Among them: Dick Boyd, Mike Baird, Dale Bystrom and Dominic Cavollo.

Not surprisingly, Longs turned to many of its veterans to help fill the vacancies. Scott's role was given to senior vp-marketing Steve Roath, who brought with him not only marketing expertise but a strong background in pharmacy and management information systems (MIS).

Other key slots were filled by Bill Brandon, George Duey, Dan Wilson, Barry Renner, Dave Fong, Al Arrigoni, Jack Daleth, Sal Petrucelli, Mike Raphel and Kyle Westover.

Throughout the transitional period at headquarters, Longs stores remained relatively unaffected because of the company's decentralized structure.

Evidence of the power of store autonomy was apparent with Longs' strong year-end financial results. For the 12 months ended Jan. 26, 1989, sales rose nine percent to $1.925 billion, while net income for the period increased 13 percent to $55.86 million.

The chain added 11 stores during the year to total 236 stores in six states. Plans call for 13 new locations in 1989.

Other plans for the current year have Longs continuing with its successful four-color newsletter circulars. Dubbed "Health News," "Beauty News" and "Today's Lifestyles," the circulars feature both informative articles, product advertising, coupons and introductions to area store personnel.

First created at the store level, the newsletter-style circulars are now distributed chainwide via direct mail and newspaper inserts. During 1989 Longs will continue to distribute three circulars plus add a fourth, "Garden News."

chain will also delve further into the operation of its first pharmacy warehouse. The chain opened the San Diego warehouse earlier this year, and after undergoing a test phase, the facility is now serving some 57 area stores.

Although the warehouse is a first for Longs, the move does not deviate from the company's operating philosophy. Stores still have the option of choosing their preferred buying source, whether it be the Longs warehouse, a wholesaler or vendor. Yet Longs is definitely making its warehouse a viable source, and the 35,000-square-foot facility is looking to make its mark with high volume pharmacy products.

According to a chain source, the rising cost of goods primarily prompted Longs to open the warehouse. In time, and with greater operating experience, Longs expects to offer central buying to more of its stores' pharmacies.

Longs is also now studying the possibility of providing central buying, warehousing and distribution for some of its front-end merchandise. Currently, the chain only centrally distributes and buys promotional products.

However, while studying central buying, Longs discovered it first needs to enhance its MIS, and this option is now under review.

Longs at a glance

Name: **Longs Drug Stores**
Headquarters: **Walnut Creek, Calif.**
Sales: **$1.925 billion**
Earnings: **$55.9 million**
Store count: **236**
Market: **California, Hawaii, Arizona, Nevada, Alaska and Colorado**
Highlights: **Former senior vp-marketing Steve Roath took over as executive vp when Dick Scott left Longs to join Osco Drug Stores.**

Pharmacies in 57 Longs stores are now buying pharmaceuticals from the chain's first Rx warehouse, in San Diego.

Bob Long, president of Longs Drug, saw the decentralized chain perform well in 1988.

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Strategy steering Peoples toward profitability

ALEXANDRIA, Va. — Peoples Drug Stores made significant progress during 1988, the start of its three-year strategic plan to return the chain to profitability.

Operating earnings for the fourth quarter were $8.3 million, up from the previous fourth quarter's $3.4 million. The operating loss for 1988, expressed in U.S. dollars, dropped to $6.6 million, from a loss of $16.9 million for 1987. Revenues rose 7 percent, to $1.5 billion for 1988 (expressed in U.S. dollars).

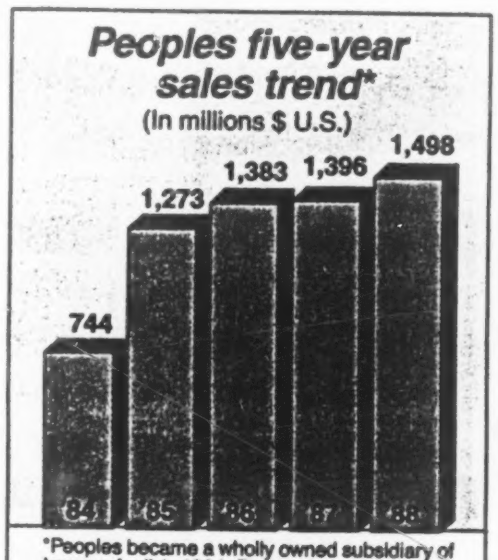
Comparable-store sales increased 5.9 percent. Prescription sales, on a comparable-store basis, increased 15 percent, continuing to lead all categories.

But in January 1989, Peoples announced it had sold its Reed division of 85 stores to Big B for about $50 million and planned to sell 240 additional stores, mainly in Ohio and Indiana. In early March, Rite Aid agreed to buy 114 of them.

David Bloom, ceo of Imasco Drug Retailing Group, which includes Peoples, said: "We analyzed all parts of the company short term and felt that downsizing to the core where we are market leaders will best enhance the turnaround."

Among Peoples' 1988 achievements:

- The rollout of the Boss format, which emphasizes pharmacy, cosmetics, photofinishing, private label and some seasonal items, in 265 stores.
- Installation of electronic scanning point-of-sale cash registers in 101 stores, in addition to the 11 test stores equipped in 1987. Plans are to increase the total to 170 by the end of this year.
- Installation of 285 more pharmacy computers, so that at year's end, 85 percent of Peoples' core-market stores were equipped, with plans to complete installation in 1989.
- Advertising and marketing program reinforcing message of convenience, value, service and selection.
- Restaging of private label brands to improve packaging, quality, and price competitiveness.
- Heightened community involvement through such projects as Wellness Express, a mobile health clinic.



*Peoples became a wholly owned subsidiary of Imasco April 1, 1984. Figures for 1984 are for the nine months from the date of acquisition to Dec. 31, 1984.

Fiscal year ended Dec. 31.

Source: Company report

HARMACY
ask your pharmacist about
SAVING ON GENERIC DRUGS

Prescription sales represented about 34 percent of total sales in 1988 at Peoples. By year-end 1988, 85 percent of stores in Peoples' core market area were operating with pharmacy computers.

Peoples at a glance

Name: **Peoples Drug Stores**
Headquarters: **Alexandria, Va.**
Parent: **Imasco Ltd.**
Chairman, ceo, Imasco Drug Retailing Group: **David R. Bloom**; senior executive vp, coo: **David Eisenberg**
Sales: **$1.5 billion**
Store count: **About 505 stores** (not including 126 former Haag stores, primarily in Indiana, up for sale)
Highlights: **Took steps to reorganize the company and step up return to profitability, including sale of 85-store Reed division and of 114 Peoples stores (former Lane Drug units, mainly in Ohio). An additional 126 stores in Indiana are for sale. When these sales are completed, Peoples will be geographically concentrated in its strongest markets: D.C., Md., Va., W.Va. and Pa. Finished first year of three-year plan, achieving significant reduction in operating loss, compared with a year ago. Had operating profit of $8.3 million in fourth quarter.**

SDM's market share growing, systemwide sales rise

WILLOWDALE, Ontario — Shoppers Drug Mart, Canada's largest drug store group, increased its market share by 1 percent in 1988, for a national market share of about 32 percent.

Shoppers' systemwide sales increased 14 percent in 1988, to $2.4 billion Canadian, and operating earnings were up 11 percent, to $57.1 million Canadian. Comparable-store sales increased 10 percent.

Among steps Shoppers took during the year:

- Super X stores were converted to Shoppers, bringing strong sales increases.
- Six of seven Pharmaprix Carnaval deep-discount stores in Quebec were sold; the seventh was converted to a regular Pharmaprix.

These changes were followed this spring by the conversion of all Howie's stores to Shoppers, marking it's departure from deep discounting.

One factor that swayed Shoppers to convert the Howie's stores was Ontario's blue laws, set to go into effect next year, which bar retail stores larger than 7,500 square feet from operating on Sunday. (Howie's are 15,000 square feet and larger.)

Another factor: The Super X conversions, with resulting substantial improvements in sales, convinced management that the Shoppers Drug Mart name and format were exceptionally powerful in existing markets.

A total of 42 new locations opened in 1988, including 35 acquisitions. In all, 15 unprofitable stores closed during the year, and at year's end, total store count under all concepts was 613.

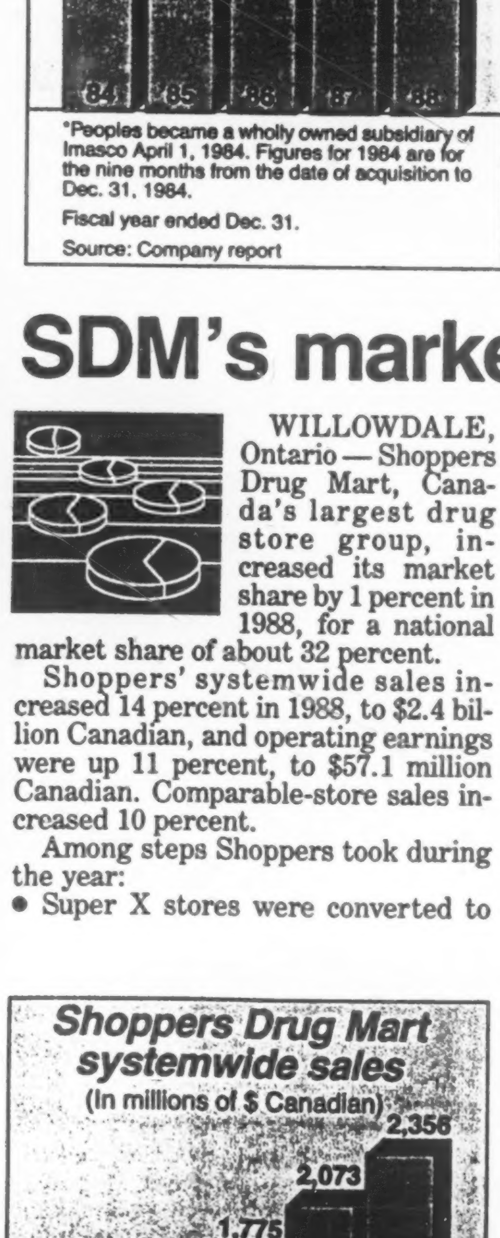
(Eight Shoppers Food Basket stores, which combine food items with the regular drug store mix, were opened during 1988, bringing total units in that format to 24. Shoppers also added two stores that include Home Health Care Centres, for a total of 18 with these centers.) The chain also undertook 22 major remodels during 1988.

In early 1989, Herbert R. Binder became president of Shoppers, which operates in 10 Canadian provinces and one territory. At the time of his appointment, Binder said the current year will be one of consolidation for the Canadian chain, coming off a period of focus on operations, "so that each store will maximize its profitability." Shoppers plans to open 30 units in 1989 and has scheduled 35 remodels.

He added that about 40 percent of the 1989 capital budget will go toward retrofitting and renovating existing stores.

Shoppers is also starting to roll out a new in-store pharmacy system, plus a new in-store accounting system. In addition, the chain is selecting "the next generation" of point-of-sale systems, which will include UPC scanning and full lookup, and plans to have pilot stores on the system by the end of the year.

The largest retailer of cosmetics and related accessories in Canada, Shoppers is remerchandising its cosmetics departments and refitting them with contemporary fixtures and lighting.



Fiscal year ended Dec. 31.

Source: Company report

THE FOOD BASKET
SHOPPERS DRUG MART
OPEN TO MIDNIGHT
NEW
8.49

Shoppers Drug Mart with Food Basket in Toronto, one of 24 stores with this format.

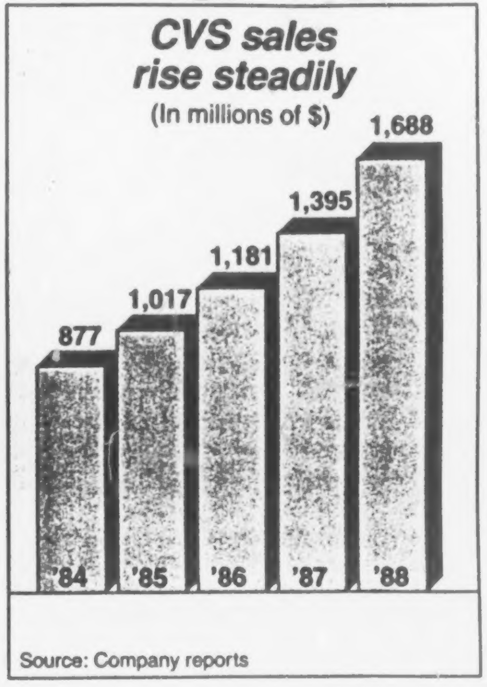
Shoppers Drug Mart at a glance

Name: **Shoppers Drug Mart**
Headquarters: **Willowdale, Ontario**
Parent: **Imasco Corp.**
Chairman and ceo, Imasco Drug Retailing Group: **David R. Bloom**
President and coo: **Herbert R. Binder**
Sales: **$2.4 billion, Canadian**
Store count: **613**
Average store size: **7,500 square feet**
Markets: **10 provinces, 1 territory**
Highlights: **Increased market share by 1 percent, to about 32 percent of national share; increased sales 14 percent; converted Howie's deep-discount stores to Shoppers Drug Mart.**

Controls, same-store gains boost CVS profits

CVS/pharmacy
CVS/pharmacy
NOW OPEN

CVS has grown by sticking with core categories in easy-to-shop 7,000-square-foot stores that are conveniently located. Inset: Harvey Rosenthal.



Source: Company reports

WOONSOCKET, R.I. — CVS parlayed its concept of "Today's Neighborhood Drug Store" to bigger profits in 1988.

Melville's drug store division, which includes deep discounter Freddy's, posted a 28.6-percent gain in operating profits to $128.5 million in the year ended Dec. 31.

The increase was due in part to better expense controls and 12 percent same-store sales gains, said said Bob Huth, Melville's executive vp and cfo. He cited an ongoing shrink containment program and more effective buying, thanks to CVS's two year-old California warehouse which is improving gross margin.

CVS climbed 21 percent to $1.68 billion of drug division sales, which reached $1.82 billion. Freddy's rose 37 percent to $129.6 million in sales. This was helped by the addition of four stores, for a total of 18.

CVS has stuck with a successful formula: providing the core drug store H&BA, cosmetics and OTC categories in a well-merchandised easy-to-shop 7,000-square-foot format.

In 1988, CVS opened 68 stores, closed 14 for a net gain of 54, and ended the year with 752 stores. Nine stores in Connecticut and Massachusetts, bought from Fay's, were among those added.

CVS's California, New Jersey and Pennsylvania markets gained the most stores on a percentage basis, and are due to receive the highest rate of growth this year again, a CVS source said.

CVS ended the year with 60 stores in California, 53 in Pennsylvania, and 88 in New Jersey. The California drive is supported by a 200,000-square-foot warehouse, 50 miles east of Los Angeles, that can supply up to 150 stores—a level anticipated by the early 1990s. The chain's other major states are Massachusetts (206 stores), Connecticut (67), New York (160), and Rhode Island (43). CVS plans to maintain its store opening pace, and expects to open 58 stores this year and close eight to end with 802.

The chain continued its brisk rollout of pharmacy departments, adding 53 to stores in 1988, and ending with 545 pharmacies.

Distribution center space was increased to 1.5 million square feet, up 100,000, through an addition to the Woonsocket facility. Meanwhile, CVS prepared to open a 400,000-square-foot DC in New Jersey, the chain's fourth, which should be operating by mid-year.

CVS launched a test of POS scanning, with slot scanning devices installed in seven stores.

The chain benefits from a veteran management team; this was underscored in the fourth quarter when a series of promotions were announced. Gary Charboneau was elevated from senior vp-marketing to executive vp-marketing. He joined a three-man executive vp tier, reporting to CVS president Harvey Rosenthal. Seven other executives were promoted from vp to senior vp posts, and five more gained vp titles.

CVS at a glance

Name: **Consumer Value Stores (CVS)**
Headquarters: **Woonsocket, R.I.**
Parent: **Melville Corp.**
Officers: **Stanley Goldstein**, president, Melville Corp.; **Harvey Rosenthal**, president, CVS.
Sales: **$1.688 billion**
Stores: **752**
Market: **13 Northeastern states, and Calif.**
Highlights: **Operating income from CVS and Freddy's deep discount stores surged forward; CVS rolled out stores on both coasts and prepared to open a new warehouse in N.J.**

Fay's comeback driven by store maturation, rollouts

Fay's DRUGS
BREAD 55¢
AccuFay

Fay's stores are due for considerable expansion over the next five years. Inset: Henry A. Panasci, Jr. (left), Larry Rose (right).

LIVERPOOL, N.Y. — After Fay's Drug posted a $1.1 million loss in its 1987 first quarter, the company explained that 41 percent of its total store base—including Wheels auto parts and Paper Cutter office supply stores—were less than three years old and not yet profitable.

Maturation of these stores and a measured rollout of new drug stores during the past two years have contributed to Fay's ongoing comeback.

As of the latest fiscal year-end Jan. 31, Fay's had just 23 percent of its store base under three years old, including only 15 percent of its drug stores. Annual earnings rose 68 percent.

To raise chainwide performance, Fay's adjusted drug store merchandise assortments and pricing. The chain chose not to compete on the basis of price with deep discounters and sharp combo operators such as Wegman's in Rochester. It held the price line on its promotional mix to boost margins. And it slashed prices selectively in the promotional mix to drive sales.

The strategy worked. Gross margins, which were 26.8 percent two years ago, rose to 27.8 percent last year, and 29.6 percent in fiscal 1989. Sales have kept their momentum, helped by a 17.5-percent gain in same-store prescription

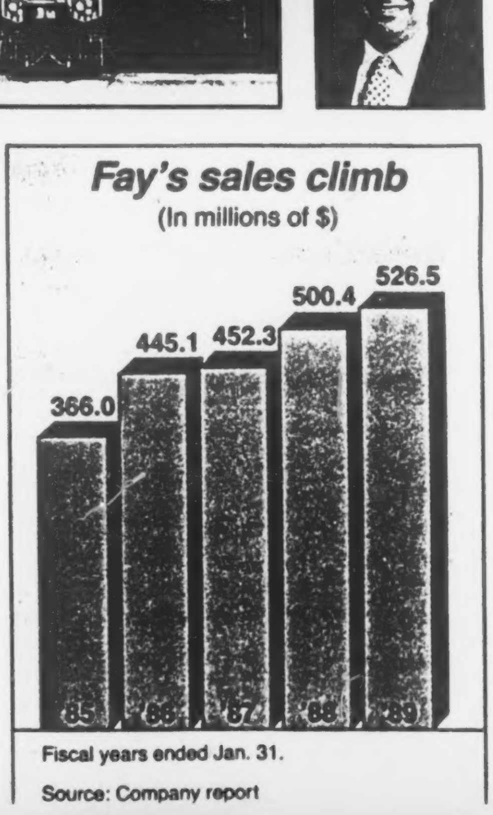
Meanwhile, Fay's plans growth in all three divisions, and intends to remain a diversified company. Henry A. Panasci, Jr., chairman, advised security analysts that Fay's plans to reach the $1 billion sales mark by 1994.

To achieve that, Fay's will increase its drug store count by 10 to 15 percent a year, with 15 to 16 stores planned for fiscal 1990. The Wheels division will grow from its current 16 units to 120 over the next five years, and Paper Cutter from a current base of 14 to 60 by the end of 1994, Panasci predicted.

Preparing for that three-division growth, the company last month announced a restructuring. Formerly senior vp-operations, John Kogut was named Fay's first president of the drug store division. He reports to Larry Rose, president and chief operations officer. Dan O'Leary, former vp-finance and cfo, was named executive vp-support and services.

Fay's at a glance

Name: **Fay's Drug Co., Inc.**
Headquarters: **Liverpool, N.Y.**
Officers: **Henry Panasci, Jr.**, chairman and ceo; **Larry Rose**, president and chief operations officer.
Sales: **$526.5 million.**
Store count: **153 drug stores (including six bantam stores); 16 Wheels auto parts stores; and 14 Paper Cutter office supply stores.**
Market: **N.Y. and Pa.**
Highlights: **Fay's posted a 68 percent earnings gain** in its latest fiscal year. **A reorganization clarified command lines, as John Kogut was named president of the drug store division, and Dan O'Leary was named executive vp for corporate services, including finance and real estate,** for all divisions.



Fiscal years ended Jan. 31.

Source: Company report

Pay Less NW will bank on new store format

WILSONVILLE, Ore. — Pay Less NW capped its fiscal year with a splash when it introduced a store prototype this winter in Cameron Park, east of Sacramento.

The 269-store chain had begun fine-tuning its merchandising strategy at the start of 1988 to better emphasize core drug store categories. Grocery, for instance, was cut back to make room for more seasonal, greeting cards, jewelry and stationery items. This effort leaped ahead in the recently opened prototype. The store emphasizes pharmacy, cosmetics and photo in an upscale environment that could take Pay Less well into the 1990s.

Key features include a unique, angled layout, graduated gondola heights, four-color lifestyle posters and graphics, department store-style merchandising of domestics and housewares, and special new fixtures.

During fiscal 1989, Pay Less expects to open 30 to 35 of these new stores, while also beginning remodels on existing locations. Next month, the first remodel will debut in San Rafael, Calif., after 12 weeks of renovation.

Although the prototype looks to be Pay Less's wave of the future, some stores had already been planned under the old format and will open as such in 1989. Pay Less expects to open 41 new stores in all this year. They'll push Pay Less over the 300-store mark and keep the chain headed towards its 500-store goal by the early '90s. Not long ago, in 1987, Bernard Fauber, retired president of parent K mart, said the subsidiary would double in size by 1991.

To help forge this growth, Pay Less is continuing to expand its sophisticated management information systems. Earlier this year, the chain launched a new video magazine that reaches the majority of its stores via satellite transmission. The magazine is a proven, instantaneous way to inform store-level employees about company and merchandising news, which leads to better customer service.

Many stores like this will be remodeled in 1989, and augment 30-35 new stores which copy the format of Cameron Park prototype.

Conveying information from stores is also possible through the satellite system—and is valuable, since all stores capture item movement data. By fiscal year's end, nearly half the stores already had scanners.

The year also ended with several announced management changes and the notice of one pending retirement.

Former vp-merchandising Gary Brooks returned to store level, so his slot was filled by Jerry Kuske, formerly vp and gmm-store operations.

Under his new duties, Kuske is now responsible for advertising, merchandising and display programs. Kuske is also involved in the chain's effort to reduce the dollar amount of its store inventories.

Taking on Kuske's old job is former district manager Murray Todd. In his new role, Todd works closely with his previous equals, helping to keep them abreast of employee training seminars, meetings and videos, and corporate decisions.

Meantime, chairman Ed Hart is planning to retire in June. Having spent 40 of his 65 years at Pay Less, Hart will be leaving behind a chain that has fared well both on its own and under the K mart umbrella.

It was Hart who helped propel Pay Less to the attractive status that garnered K mart's interest. The chairman was responsible for instituting one of the industry's first pharmacy computer networks. He also helped to spearhead many of the chain's aggressive merchandising strategies.

In his last full fiscal year, Hart brought Pay Less' sales volume to $1.45 billion, compared to $1.2 billion in the previous year, according to Shearson Lehman Hutton. The investment firm also calculates that the drug chain's operating profit was four percent of sales, or $58 million.

Pay Less NW at a glance

Name: **Pay Less NW**
Headquarters: **Wilsonville, Ore.**
Parent: **K mart**
Officers: **Ron Schiff**, president; **Ed Hart**, chairman; **Tim McAlear**, executive vp
Sales: **$1.45 billion***; operating profit, **$58 million***
Store count: **269**
Average store size: **31,000 square feet**
Market: **Oregon, Washington, California, Idaho, Montana, Arizona, New Mexico, Colorado and Nevada**

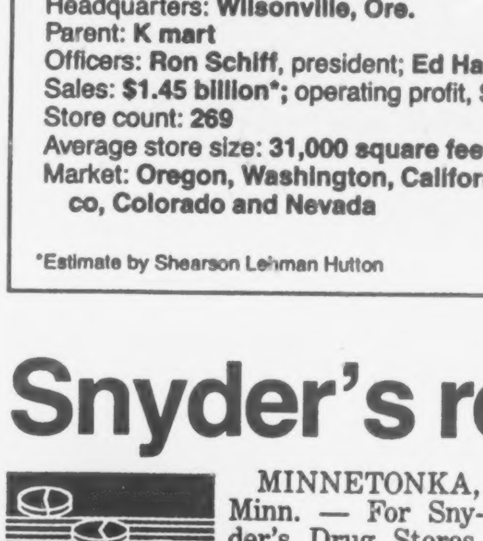
*Estimate by Shearson Lehman Hutton

Snyder's revamps for more up-to-date image

MINNETONKA, Minn. — For Snyder's Drug Stores, 1988 was a significant repositioning period.

The chain shrugged off its slogan as "The old corner drug store for today" and replaced it with "The Right Brands. Right Now." The new slogan reflects Snyder's new posture as a contemporary retailer with a broad selection of up-to-date products.

The market research that produced Snyder's new slogan also resulted in the chain dropping the words "drug store" from its advertising. "Our research showed that the term 'drug store' carries some dated perceptions not in line with Snyder's today," explained Bill Vidmar, vp-marketing.


Snyder's new mini-combos, such as this Minneapolis store, contain full convenience food departments, with coolers

Both changes are integral to Snyder's major new media campaign. Created after extensive market research by a local agency, Martin/Williams Advertising, the campaign features new television image commercials and a revamped circular program aimed at female shoppers age 25 to 54.

But that's just the latest of changes Snyder's initiated during the year. Others include:

- A new pharmacy consultation prototype. Adjoining pharmacy, the new consultation alcoves contain several chairs, a display of health-related literature, a drinking fountain (so patients can take medication), a blood pressure testing machine and a side window to the pharmacy, for counseling privacy.

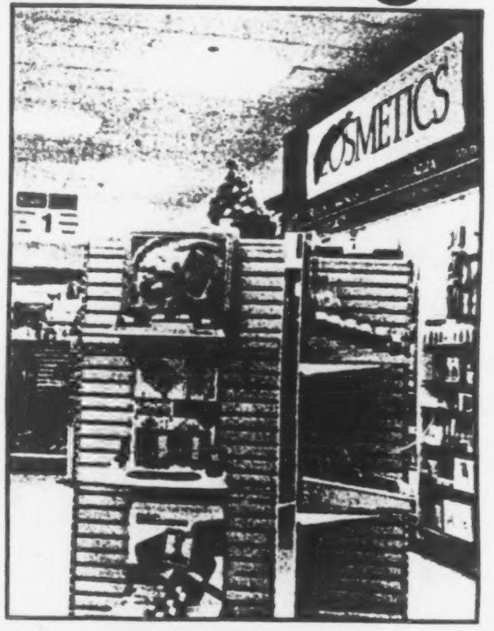
In addition, pharmacy will be at floor level, rather than on a platform, in all remodeled and new stores. (Focus groups complained of having to literally "look up" to the pharmacist, as well as about the awkwardness of filling out forms at a high counter.)

- A new mini-combo prototype for some corporate stores. Eleven of Snyder's larger (12,000-square-foot-and-up) stores, in locations without a grocery or convenience store nearby, are being remodeled with full convenience food departments, including coolers and freezers.
- Use of large, colorful banners for department identification. The banners are easily moved, allowing flexibility

moving the manager's office to the front of stores, for greater accessibility and better store observation; and using comprehensive fixture modules to create a more unified look in cosmetics departments.

Snyder's is the No. 1 drug chain in the Minneapolis/St. Paul market, controlling more than 30 percent of drug store sales. In addition to 62 corporate stores, 162 independent stores use its name and programs, and its wholesale operation serves 51 additional stores.

Behind the more visible changes at Snyder's are internal improvements, begun after Don Beeler, now chairman, president and ceo, and five other execs bought Snyder's from Wickes in a 1986 LBO. Two key elements: Snyder's now has a better personnel training program, establishing three "Snyder University" training centers in the Twin Cities and three in Wisconsin; the chain also developed uniform systems and store performance standards.



Snyder's colorful new banner signage, upper right, can be moved around, allowing flexibility in store planning.

Snyder's at a glance

Name: **Snyder's Drug Stores**
Headquarters: **Minnetonka, Minn.**
Donald D. Beeler: Chairman, president and ceo
Sales: **$241.9 million (corporate)**; drug and H&BA stores: **$129.6 million**
Store count: **62 (corporate); 162 (independent-owned stores using Snyder's name and trademarks and participating in Snyder's programs). In addition, 51 stores are served by Snyder's wholesale operation.**
Average store size: **10,000 square feet**
Markets: **Minn., Wis., Mich., Iowa.**
Wholesale markets: **N.D., S.D., Mont., Neb., Ill.**
Highlights: **New media campaign; store design changes, including pharmacy consultations prototype, mini-combo re-sets, department identification**

Phar-Mor is now a driving force in 18 states

YOUNGSTOWN, Ohio — At a pace of approximately one new store every week, Phar-Mor is growing rapidly into a retail powerhouse. The off-price chain has opened 123 stores in 18 states since the first Phar-Mor opened in Ohio in 1982, and it plans to have 164 units on line by the end of this year.

In late February, Phar-Mor pushed farther westward, with its first unit in suburban Denver. Typical of the chain's rapid growth strategy in new markets, it plans to have three or four stores open in the Mile High City by year's end.

In recent months Phar-Mor has also entered Louisiana and Texas; it is building rapidly in Houston. Stores have also been added in Chicago and in various cities in Florida, the Midwest and the Southeast.

Phar-Mor's drive into a new area is always a high-profile marketing event that gets the attention of local drug, food and discount store operators.

The reasons are apparent to any retailer who has witnessed Phar-Mor's brand of market penetration. For one, Phar-Mor doesn't enter markets slowly. Rather, it stages a retail blitzkrieg, snapping up site opportunities and rapidly building a powerful store base. Thus it can quickly do cost-effective, market-wide advertising, and its stores are within reach of customers all over town.

And the deep-discount chain advertises heavily, both for grand openings and on an on-going basis. Unlike most off-pricers which rely on word-of-mouth, the company doesn't hesitate to spend ad dollars on a variety of media, including full-color glossy circulars, regular newspaper inserts and ROP ads, and television.

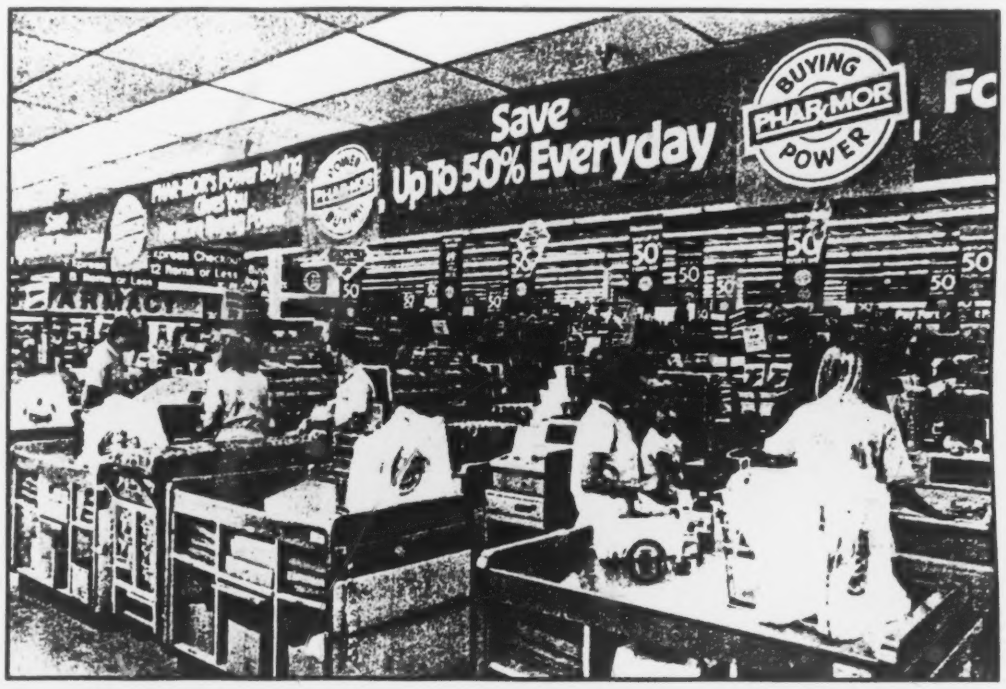
The chain also offers at least the image of across-the-board, deep-discount pricing, cutting prices to the bone in some departments and making up for it in other areas. Gross margins are squeezed as low as 16 percent in some departments, but high turns, heavy customer traffic and per-customer sales, and higher margins elsewhere in the store generate consistent profits. Phar-Mor won't say just how much the profits are, but its heavy cash flow has been enough to keep the chain growing at a breakneck pace.

Another Phar-Mor strength is its merchandise mix, which is far broader than that of most off-price drug retailers and includes several aisles of dry groceries and candy and snacks, as well as a strong presentation of housewares, paper products, H&BA, books, and records and tapes. Most stores also have high-traffic video departments with some of the cheapest rental prices in town.

Phar-Mor's broad mix, low prices, and large, clean stores are enough to appeal to a broad demographic spectrum of customers. Stores range in size from about 40,000 to 65,000 square feet, and virtually all feature computerized pharmacies.

Phar-Mor at a glance

Name: **Phar-Mor**
Headquarters: **Youngstown, Ohio**
Officers: **Michael Monus**, president; **Joel Arnold**, senior vp-operations; **Jim Teichman**, senior vp-general manager; **Joe Pingue**, senior vp-marketing.
Store count: **123**
Fiscal 1988 sales: **$752 million** (estimate)
Market: **Southeast, Midwest, North Central, Southwest.**
Highlights: **Nearly doubled in store count; entered new states including Texas, Louisiana, Wisconsin, Iowa and Kentucky; strengthened Chicago store base to 10 units.**



Competitors have learned not to underestimate the potency of Phar-Mor when it enters a market.

Tight market causes K&B to trim its expenses

NEW ORLEANS — K&B, coping with a four-year economic depression in its home state and in Texas, is adhering to the course articulated by James LeBlanc when he was appointed president: "We will continue what we're doing and try to do it better."

In line with the second part of that statement, the 149-store chain has stepped up its advertising substantially and reduced its expenses in all areas, said Bruce W. Fiegenschue, vp and director of operations.

Especially in its New Orleans market, where it holds about a 43 percent market share, and in northern Louisiana, K&B's increased investment in price-item TV advertising has been "well worth it," Fiegenschue said. The chain has also reduced the number of full-page print ads and focused more on circulars and color, non-glossy newspaper inserts, run alternately with its circular program.

K&B's cost-cutting measures have resulted in greater efficiencies: "We've attacked every expense area over the past four years," the operations director noted. "We're improving our situation now, even though the local economy is not cooperating. The steps we've taken have paid off on the bottom line."

Expansion, which at one store per year had been essentially dormant during the past several years, will pick up this year. Fiegenschue said K&B plans to open four to six stores in the current year and expects to get back on an eight- to 10-store expansion

K&B at a glance

Name: **K&B Inc.**
Headquarters: **New Orleans**
Chairman and ceo: **Sydney Besthoff**
President and coo: **James J. LeBlanc**
Sales: **$372.2 million**
Store count: **149**
Average store size: **12,563 square feet** (selling)
Markets: **La., Miss., Ala., Fla., Texas**
Highlights: **Increased advertising; achieved 100 percent pharmacy computerization; expanded footage and concentrated focus on core drug store categories.**

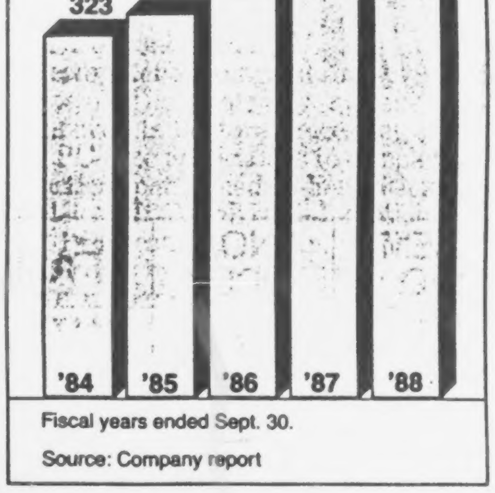
Mississippi, Alabama, and Florida for growth. Although some new sites haven't been announced yet, a store is scheduled to open in Pensacola, Fla., this summer.

The chain is "in the infancy of re-prototyping stores to emphasize core drug store categories" and has expanded such departments as school and office supplies, greeting cards, candy and drugs and toiletries, he noted. In the four most recent store remodels, the manager's office has been positioned at the front of the store, allowing managers more visibility and improving security. Cosmetics also has been moved up front. About 10 store remodels will be completed by year's end.

The chain has also increased employees and hours at the cashier level to provide better service.

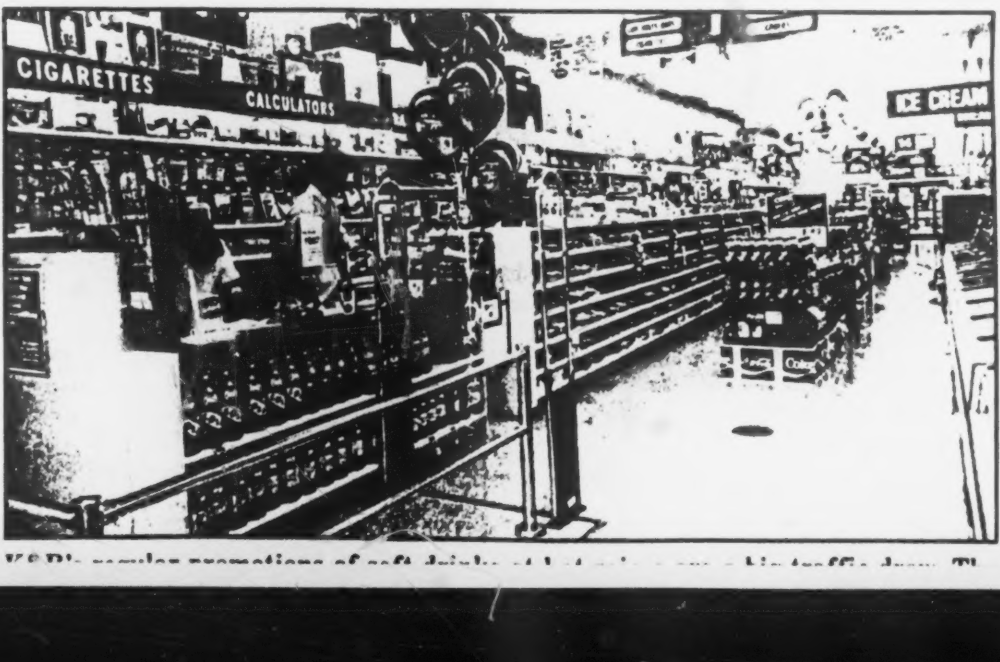
A strong seasonal chain, K&B also prides itself on being No. 1 in beverages, especially beer and soft drinks, in its markets. "We give beverages plenty of space and advertising—it's a super way to draw traffic," Fiegenschue said, adding that beverage strip

In addition, K&B's prescription business is "better than ever," the operations director said, noting that the chain is now aggressively pursuing the third-party market. On-line adjudication of third-party claims has "been a big help to us," he added. All K&B's 149 pharmacies have computers.



Fiscal years ended Sept. 30.

Source: Company report



Satellite, growth launch F&M's sales skyward

WARREN, Mich. — F&M, the nation's third largest deep discounter, netted 14 more stores to its roster this past year and grew sales about 40 percent to an estimated $462 million.

Besides filling in some major new markets, and divesting itself of three former Pathmark Super Drug stores that did not fit into the current geographic expansion plans, F&M also successfully completed the chainwide installation of point-of-sale scanners, and is currently halfway through the installation of satellite discs, which should be chainwide by June.

The technology will enhance F&M's merchandising opportunities by letting buyers determine individual item movement on a daily basis. Frank Newman, president, said: "We'll be able to minimize our out-of-stocks because we'll know how quickly individual items are selling. That means we'll be able to improve our replenishment rates and that will prevent us from losing sales."

The satellite discs will save significant mail and phone fees, and perhaps more important, improve headquarters ability to communicate with stores and "respond much more quickly to the store's needs," said Newman.

F&M at a glance

Name: **F&M**
Headquarters: **Warren, Mich.**
Officers: **Frank Newman,** president.
Sales: **$462 million** (estimated)
Store count: **66**
Markets: **Michigan, Illinois, Ohio, Indiana, Wisconsin, D.C., Maryland, Virginia**
Highlights: **Opened 17 new stores, sold 3; Installed point-of-sale systems chainwide; Installed satellite discs in half of chain** and will complete chainwide rollout by June.

As for expansion, home market fill-ins are being emphasized. In Detroit, for example, F&M now has 15 stores and will open at least another four in 1989. Their main deep discount competitor there is Perry's A.L. Price, which has about nine units in this city.

In Chicago, F&M has 25 stores compared to about 10 for Phar-Mor, their closest competitor there. Newman plans to open at least five stores in this city in 1989.

F&M only entered the Washington, D.C.-Baltimore market a year-and-a-half ago when they bought some Pathmark Super Drug stores. Recently, they acquired additional sites from Dart Drug to reach 10 locations in D.C. Newman thinks that area could hold 20 F&Ms, and plans to add three more this year to raise market presence to 13.

In Baltimore, F&M has six stores and might open two more this year.

Store opening plans beyond 1989 haven't been revealed. Newman said, however, that the chain will continue to grow aggressively with as many profitable stores as fast as possible.

4 SAVE 47¢
3 SAVE 45¢

F&M will be quicker to respond to movement trends when merchandising such core categories as OTCs, thanks to scanners and satellite transmissions.

Store growth, POS systems spur Thrift's sales, profits

PITTSBURGH — New store growth and further rollout of POS computer systems marked the year for Thrift Drug, which posted another 12 months of record sales and profits.

Thrift launched 35 stores, its highest rate of new openings in any year, and closed one for a net gain of 34. The chain backfilled markets in eastern Pennsylvania and Philadelphia, New Jersey, Delaware, and Atlanta, Ga., and Kansas City. It continues to operate in 19 states in the Mid-Atlantic, South, and Midwest regions.

Thrift's fiscal results kept pace with record sales and earnings it has achieved through the 1980's.

"We had a fine year, where we exceeded both sales and profit projections," said president Bob Hannan. Sales grew 11.6 percent in the fiscal year ended Jan. 28. Profits growth exceeded that of sales, Hannan said.

"I attribute [the results] to the excellent management performance turned in by our people throughout the organization," he added.

Thrift didn't move into any new markets, but did forge into some central business districts such as Philadelphia with a downsized format of 5,000 square feet. This compares with the chain's favored 8,500 square foot format in strip centers.

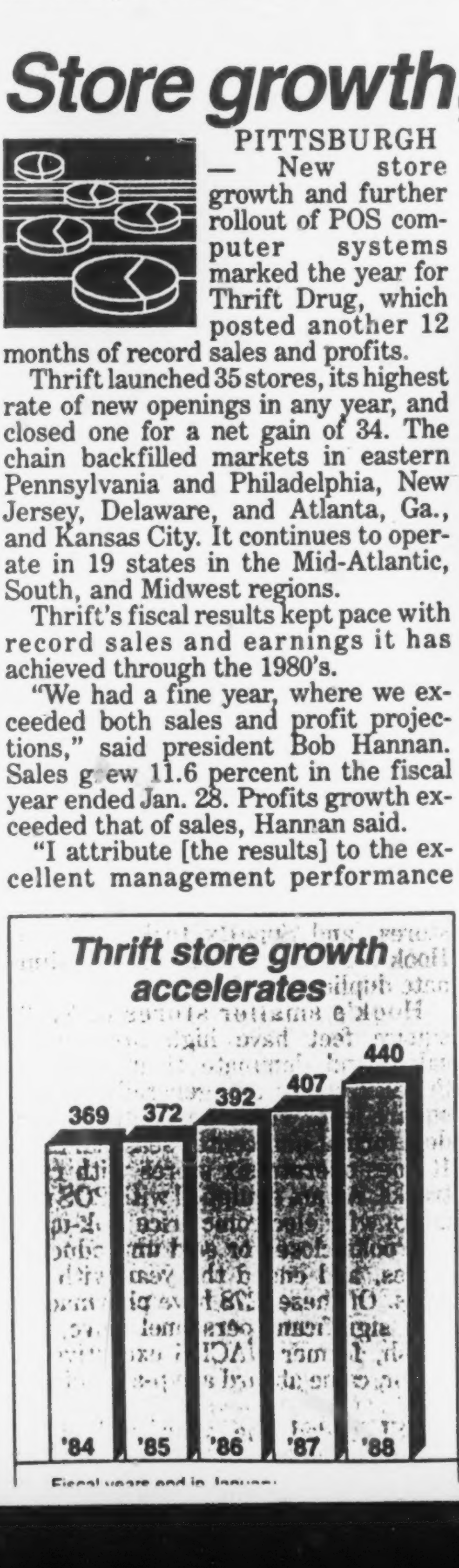
The smaller format is another example of Thrift's commitment to layouts which emphasize core drug departments. This began in the late 1970s, when Thrift eliminated much general merchandise, and downsized stores that were as large as 25,000 square feet.

Thrift this year decided to drop eight optical centers which it was operating in Pittsburgh stores. "Our drug stores have relatively compact trade areas which don't have enough prescription eyeglass business to properly support an optical department," Hannan said.

Thrift, however, is maintaining its home health care business, which blends well with pharmacy and its overall health image. Customers or pharmacists in 320 stores can order equipment stored in five Thrift DME (durable medical equipment) centers, and have it delivered directly to the patient's house.

Thrift continued to refine its pharmacy computer system and roll out a POS system. The pharmacy system gives pharmacists in-store processing power for PC-type applications to complement functions performed on-line with a central host. It also allows integration with the POS scanning system, which was in 140 stores by fiscal year's end.

In personnel shifts, Janice Meikle, was named vp-professional and public affairs, replacing Don Bell who retired in February. Also, Craig Sinclair was named vp-marketing.



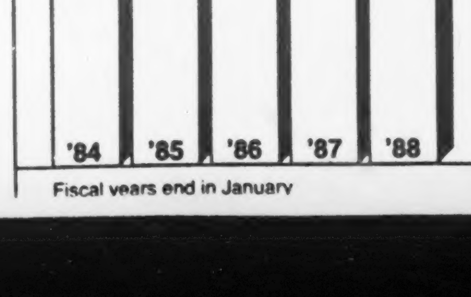
Fiscal years end in January

PRESCRIPTIONS

Thrift takes advantage of logical tie-in to present eye care, dental and sun care products at pharmacy counter.

Hannan

Civello



Fiscal years end in January

Thrift at a glance

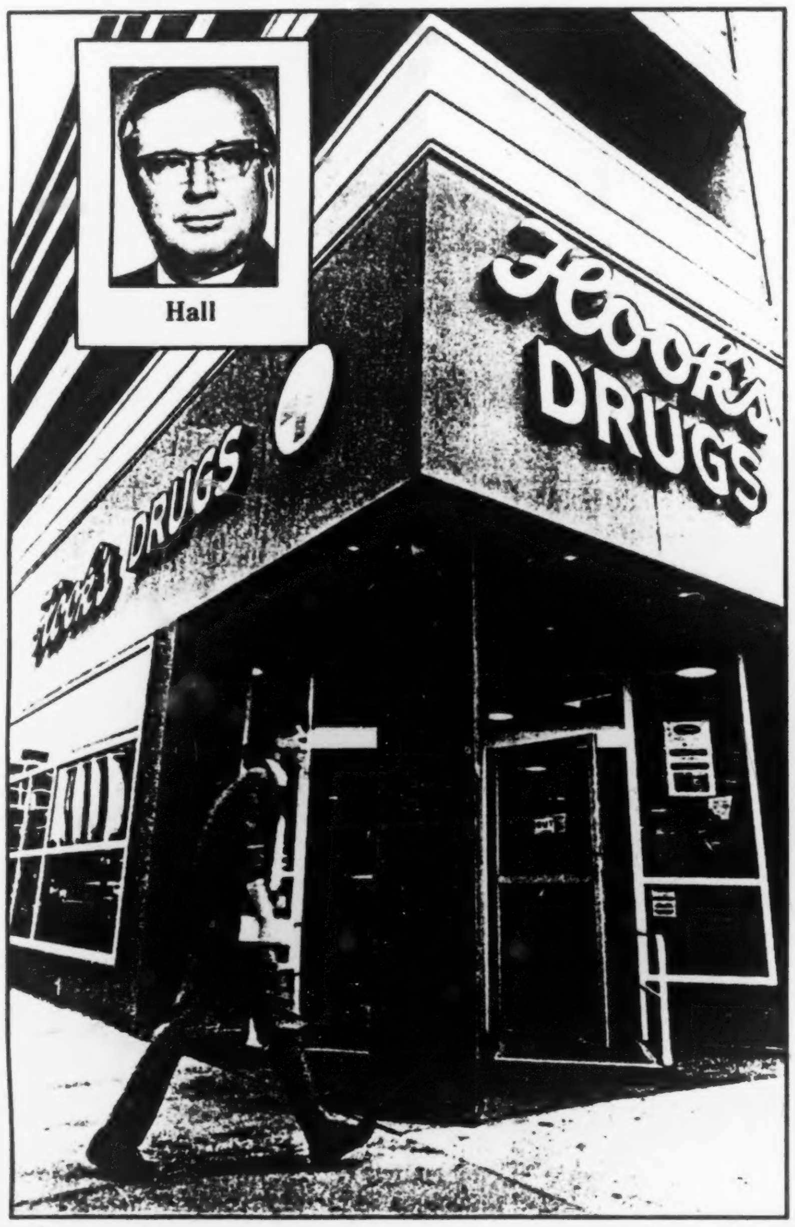
Name: **Thrift Drugs**
Headquarters: **Pittsburgh**
Parent: **JCPenney Co.**
Officers: **Robert Hannan,** president; **Tony Civello,** executive vp-operations
Sales: **$977.4 million.**
Stores count: **440**
Markets: **Pa., N.J., Ga., Del., Kan., Md., Mo., Ohio.**
Hightlights: **Thrift Drug achieved record sales and profits, and backfilled markets including eastern Pa. It installed POS scanning in about one-third of its**

Annual Report Part I: Hook-SupeRx, Brooks profiles

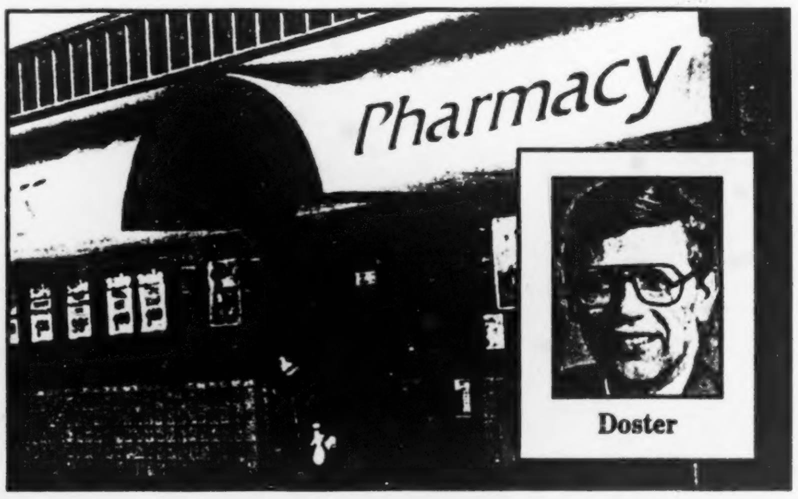
Hook-SupeRx at a glance

Name: **Hook-SupeRx, Inc.**
Headquarters: **Cincinnati**
Officers: **Philip Beekman,** chairman; HSI executive vps and divisional presidents: **Gary Hendren,** SupeRx; **Newell Hall,** Hook; **Gayl Doster,** Brooks.
Sales: **$1.3 billion**
Store count: **1,028 drug stores, 30 convalescent aid centers, 13 deep discount stores**
Market: **24 states in the Midwest, South and Northeast**
Highlights: **HSI issued $80 million in high-yield bonds to buy Brooks Drug, and gain markets in 10 New England states. Despite the added debt, HSI said in SEC reports that it is meeting expenses with cash to spare.**

SUPERX LIQUOR
SUPERX
Hendren



HSI operates three diverse retail formats. Hooks (left) is headed by Newell Hall, SupeRx (above) by Gary Hendren and Brooks (below) by Gayl Doster.



By year's end, the Brook's buy looked more like a winner. . . HSI was meeting its expenses with cash from operations, according to reports.

HSI store count stays steady

1987*

SupeRx	313
Hook's	335
Brooks	361

1988**

SupeRx	323
Hook's	357
Brooks	348

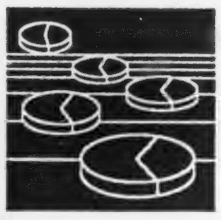
*Numbers don't include 24 Hook's convalescent aid centers and 12 Drug World deep discount stores.

**Doesn't include 30 Hook's aid centers and 13 Drug Worlds.

Source: Company reports

Brooks buy propels HSI to top 5 in store count

Philip Beekman
chairman, HSI



CINCINNATI — Hook-SupeRx, Inc. has become the fifth-largest drug chain in store count with its $80 million purchase of Brooks Drug.

The acquisition— which came 18 months after a management group bought HSI from Kroger—gave HSI an immediate presence in 10 Northeastern states. And it propelled HSI close to the top 10 in sales.

The takeover seemed daring on two counts: HSI was already loaded with debt from its $415 million leveraged buyout, and Brooks suffered a $3.5 million net loss in its fiscal year ended Jan. 2, 1988. HSI then financed the deal with 13 percent bonds, which mounted interest burden on top of debt payments due on its initial LBO $125 million bond sale.

HSI even said at the time that cash flow from SupeRx and Hook would most likely have to service Brooks' financing, and said it couldn't rule out selling assets to meet obligations.

On the plus side, though, HSI saw a chain with favorable locations and a strong management team that had been in place several years and was already upgrading Brook's image. Gayl Doster, a former cfo at HSI, was named Brooks president.

By year's end, the Brooks buy looked more like a winner. At least HSI was meeting its expenses with cash from operations, according to reports it filed with the Securities and Exchange Commission. It reported it had $798,905 cash at fiscal year-end Aug. 31, 1988. In the new year's first quarter ended Nov. 30, it added $1.69 million more, ending with a $2.5 million cash balance.

Sales in the year ended Aug. 31, including two-and-a-half months of Brooks sales, were $1.3 billion. Sales for the first quarter ended Nov. 30 were $413.4 million, compared with $277.6 million in the comparable period.

"Although there can be no assurance, it is the present intent of the company to fund future debt service requirements . . .from cash generated from operations," HSI reported in December.

HSI recorded net losses on paper after applying non-cash charges stemming from depreciation of assets which were written up for the LBO. The losses allowed tax loss carryforward credits of $150,850 in the first quarter, and a $329,576 credit for the 1988 year.

HSI continued to refine operating regions between Hook and SupeRx: Hook took over SupeRx Michigan stores, and SupeRx took control of Hook units in western Ohio, to eliminate duplication of efforts.

Hook's smaller stores of 7,500 square feet have high prescription sales, and dominate their markets. SupeRx stores are generally 10,000-square-feet, with a conventional gondola format and center seasonal aisle. It does operate six stores with racetracks. All are equipped with POS registers with electronic price look-up.

Brooks closed or sold unproductive stores, and ended the year with 348 units. Of these, 278 have pharmacies. In a significant personnel move, Bill Welsh, former NACDS executive director, came aboard as vp-administration.

HSI ended the year with 1,071 stores, including 357 Hook's, 323 SuperRx's, and 348 Brooks', as well as 30 Hook convalescent aid centers and 13 Drug World deep discount stores.

Arbor hot on Perry's heels as its profits head skyward

TROY, Mich. — If Walgreens is the benchmark for success in the chain drug industry, Arbor Drugs has cut a notch or two of its own with a similar formula for achievement.

Like its much larger counterpart, Arbor has developed and refined a high-volume, basics-oriented drug store format remarkably in tune with the needs and desires of its customers. Also like Walgreens, it has matched its success in merchandising and marketing with the kind of disciplined operating systems and managed growth that have allowed profits to keep pace with rising sales.

In Arbor's case, profits are growing even faster than sales. Fiscal 1988 saw net income shoot up 29.3 percent, to $6.7 million, on a sales increase of 14.5 percent, to $246.5 million.

The first half of fiscal '89 has been even better, with sales up almost 23 percent and net profits up 30.6 percent. Comparable-store sales shot up a healthy 14.1 percent.

Those gains reflect a steady increase in market share in metro Detroit and southeastern Michigan. Arbor's share of drug store sales in that market jumped from 13.5 percent in 1986 to 19.5 percent in 1988, according to Metro Market Studies. In the same period, Perry Drug Stores' share rose from 18.2 percent to 21.7 percent.

Arbor reaped those rewards by patiently cultivating its southern Michigan home market, and by sticking firmly to a set of operating guidelines laid out by founder and chairman Eugene Applebaum and president Markus "Max" Ernst.

Those guidelines include a tightly focused merchandise mix, including strong presentations in all basic drug store categories as well as liquor; stores that are squeaky clean, well-stocked and attractively designed; an everyday low-price strategy that gives Arbor stores a value image without sacrificing profits; a firm adherence to disciplined operating and merchandising systems; steady, manageable growth; and clear advancement opportunities for employees.

Arbor's recent sales and earnings breakthroughs also owe much to the growing maturity of its newer and acquired stores, and to the improvement in its in-stock situation thanks to a much larger, highly automated distribution center which went on line early last year.

A 36 percent increase in pharmacy volumes in fiscal '88 also spurred sales. In the past three years, Applebaum said, the pharmacy portion of Arbor's business has jumped from 25.2 percent of total sales to 34.6 percent. Stores open at least one year now generate pharmacy sales of more than $1.1 million, and fill about 200 scripts a day.

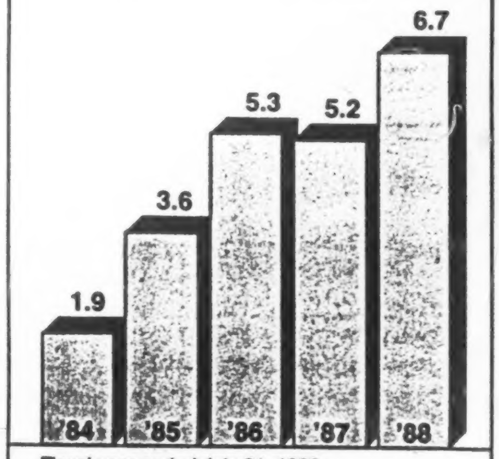
Arbor markets heavily to third-party customers, and accepts every major insurance plan in its market. With third party now accounting for more than 60 percent of its total pharmacy sales, Arbor is trying to cut administration and eligibility costs by establishing on-line computer links between its pharmacies and major third-party contractors.

Applebaum's stated mission for Arbor could come straight out of a textbook on successful retailing. "Our short, intermediate and long term goals share the same mission: meaningful and profitable growth through a professionally managed, highly disciplined chain drug store operation," he noted in the last annual report.

Arbor's goal, Applebaum says, will be to continue to exceed the industry average in annual per-store sales (Arbor's current average is $3.3 million); raise its sales per square foot averages; and increase profitability through its highly focused brand of retailing.

Arbor's earnings jump

(In millions of dollars)

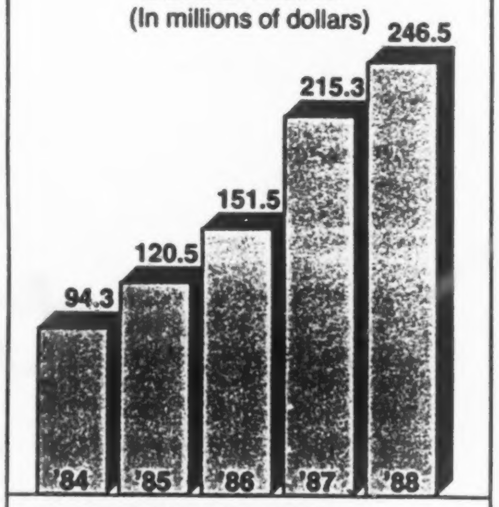


Fiscal year ended July 31, 1988

Source: Company reports

Arbor's five-year sales trend

(In millions of dollars)



Fiscal year ended July 31, 1988

Source: Company reports

Arbor continues to cultivate its home market. Comparable-store sales are up 14.1%.

Arbor Drug at a glance

Name: **Arbor Drugs, Inc.**
Headquarters: **Troy, Mich.**
Officers: **Eugene Applebaum**, chairman and ceo; **Marcus Ernst**, president and chief operations officer.
Sales: **$246.5 million**
Store count: **83**
Store size: **10,400 square feet**
Market: **Southeastern Michigan**
Highlights: **Record sales and earnings; move to new headquarters building and new, 233,600-square-foot distribution center; new systems installed to handle growth; pharmacy sales breakthroughs; planned expansion into Saginaw and Midland, Mich.**

Duane Reade gets back on New York growth track

LONG ISLAND CITY, N.Y. — After a year of consolidation, the 30-unit Duane Reade chain is hoping to open another four or five stores over the next two years.

At least two sites have been finalized for 1989, and both are opening this spring.

Duane Reade, which has some stores as small as 3,000 square feet and others as large as 8,000 square feet, is also looking now for sites in the 5,000- to 7,000-square-foot range.

Management says that the company needs at least 5,000 square feet to maximize volume potential, and that 7,000-square-foot formats enable the chain to add such growth departments as coolers filled with single-serve beverages, paperback books, convenience foods and greeting cards—all of which are being expanded or added to its larger stores.

In 1988, Duane Reade finished installing pharmacy computers chainwide. The focus this year will be on developing a direct store delivery (DSD) inventory control system.

The company is now researching equipment, but a source said that management hopes to have a DSD system in place "within the year."

Currently about 85 percent of the merchandise Duane Reade sells comes through its 155,000-square-foot distribution center. A DSD program would supplement the movement reports now coming from the warehouse, improve control over inventory and turns, and generate considerable savings.

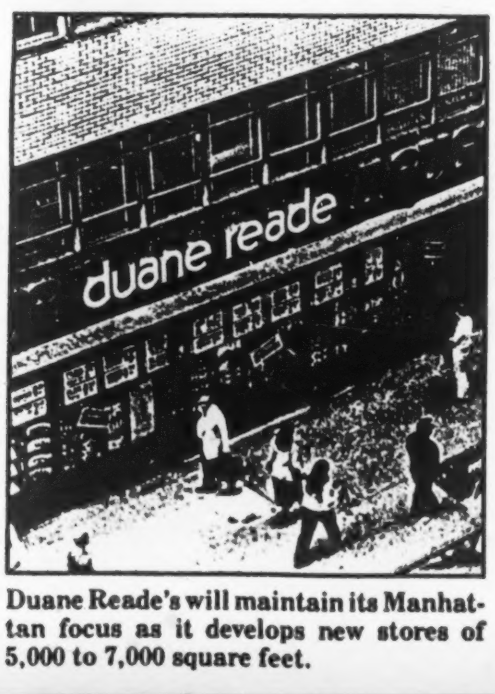
Concurrently, Duane Reade is adding 30,000 square feet to its warehouse.

They'll take Manhattan

All but one of Duane Reade's stores are in Manhattan, where management intends to concentrate its future growth. About one-third are in the downtown financial district, where the chain's first store opened 32 years ago on Broadway between Duane and Reade streets.

The rest of the stores are in midtown; management believes that both areas are perfect for Duane Reade's type of operation.

A typical Duane Reade store averages between $5 million and $6 million a year, with sales driven largely by street traffic and passersby. The core shopper is a woman office worker, and she typically takes advantage of Duane Reade's convenient locations and low everyday prices to buy everything from prescriptions through cosmetics, convenience foods, paperback books and cigarettes.



Duane Reade's will maintain its Manhattan focus as it develops new stores of 5,000 to 7,000 square feet.

Duane Reade at a glance

Name: **Duane Reade**
Headquarters: **Long Island City, N.Y.**
Officers: **Eli Cohen**, president; **Abraham D. Cohen**, chairman
Sales: **$200 million**
Store count: **30**
Average store size: **5,000 square feet**
Market: **New York City**
Distribution: **85 percent of mix through 155,000-square-foot distribution center**
Highlights: **In 1988, Duane Reade completed installing pharmacy computers in all stores; remodeled five stores; expanded mix in larger stores to include greeting cards, paperback books, convenience foods, and cooler beverages. Management also added a thinning hair treatment section to hair care and began experimenting with a set for franchised skin treatment.**

Annual Report Part I: Perry, Big B profiles

Perry hits the long road back to profitability

PONTIAC, Mich. — The buyout rumors have died down, but stock in Perry Drug Stores continues to trade at the upper end of its 12-month trading range. The reason may be more fundamental than takeover speculation: analysts and investors are sensing a gradual turnaround in Perry's fortunes as it recovers from two years of losses and restores profits.

Michigan's largest drug chain is struggling—with apparent success—to regain its momentum after a prolonged and painful slide into the red. Perry hit bottom last year, suffering a net loss of nearly $30 million, on top of a $7.9 million loss in fiscal 1987. That figure included a one-time charge of $23.4 million from the sale of its auto parts division, as well as losses from continuing operations.

Perry suffered from a host of problems. Debt load was heavy, thanks to years of aggressive expansion at the cost of basic business.

A costly inventory adjustment program crimped margins as Perry shed some general merchandise categories not traditionally found in drug stores. Same-store sales were stagnant as feisty competitors like Arbor Drug gobbled up market share. Operating and health care costs for employees shot up. Stores began to look stale, with an out-of-focus merchandise mix and image.

At the recent annual meeting, Perry chairman and chief executive Jack Robinson didn't mince words. "I've been to business hell and back, and our management's been there and back," he said. "None of us want to go back there."

Robinson, president Dave Schwartz and other Perry executives have taken a number of steps—some painful—to make sure they don't have to. One of the biggest was the creation of a totally new management team over the last two years to move Perry beyond its entrepreneurial beginnings, and into a new, more sophisticated era of professional management.

Members of the new team

The new team includes president and coo David Schwartz and senior vp-store operations Gary Allen, both formerly of Albertson's; executive vp and cfo Richard Barker; vp-information systems Vick Melancon; vp-marketing David Green; and vp-finance J. Stuart Newton.

The sale of the auto parts stores was a key move, and marked a sweeping return to basics in Perry drug stores as well. Last year, Perry unveiled a dramatically redesigned store format built around key core departments, including pharmacy, cosmetics, stationery/office supplies, OTCs and photofinishing. This "store of the '90s" is the prototype for a rapid chainwide store renovation program.

Perry is also enhancing its computer systems to improve inventory and pricing controls, third-party programs and strategic information. Part of that effort is the ongoing installation of new, more powerful pharmacy computers chainwide.

Perry has also cut operating costs, improved its store- and management-level training programs, launched new ad campaigns to restore its image, and hit hard at improving its customer service.

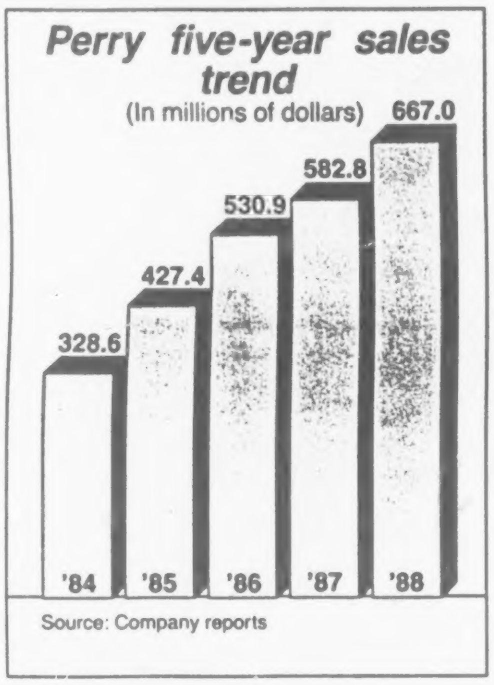
"The results of all our efforts have made us a leaner organization; a more efficient company; a company with stronger management; with better controls; and a sharper vision," said Robinson.

"Continuing to improve our profitability is Goal No. 1, 2, 3 and 4," added Schwartz.

Revamped cosmetics department is key component of Perry's new format.

Perry Drug Stores at a glance

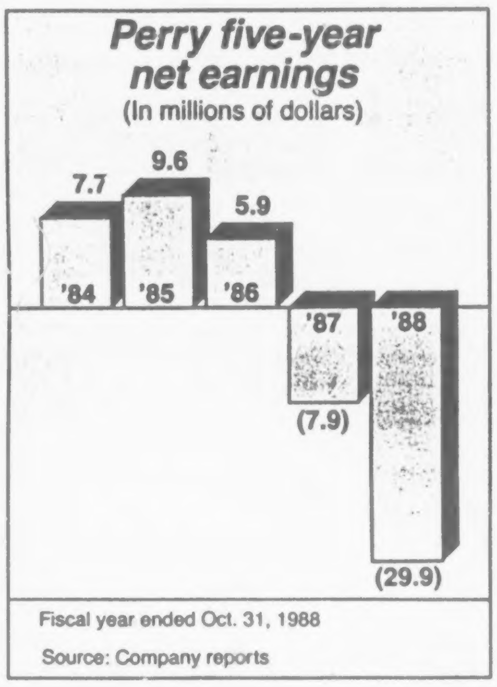
Name: **Perry Drug Stores**
Headquarters: **Pontiac, Mich.**
Officers: **Jack Robinson,** chairman and ceo; **David Schwartz,** president and chief operations officer.
Sales: **$667 million**
Store count: **222**
Average store size: **12,000 square feet**
Market: **Michigan, Illinois, Indiana, Wisconsin**
Highlights: **Finished building new management team; launched new store prototype; computer system enhancements; reduced operating costs; revised strategic plan in favor of profitability and improved market share; revamped private label, cosmetics and photofinishing programs.**



Perry five-year sales trend

(In millions of dollars)

Source: Company reports



Perry five-year net earnings

(In millions of dollars)

Fiscal year ended Oct. 31, 1988

Source: Company reports

Big B storms Atlanta, opens 200th store in 20th year

BESSEMER, Ala. — Big B celebrated a banner year in 1988, reaching such milestones as its 20th anniversary and the opening of its 200th store.

Perhaps more significantly, Big B blasted into Atlanta for the first time when it bought 85 Reed drug stores from Peoples in February. That grew the chain in one fell swoop to 297 stores and over 2,400 employees. It is Alabama's largest chain.

In the fiscal year ended Jan. 28, Big B posted a 9.1-percent sales gain to $271.3 million, and net earnings rose to $7.2 million.

Throughout the year, Big B's management has focused sharply on its drug operation since selling five combos in 1987's fourth quarter to Bruno's, the former parent of Big B.

This clear vision better enabled Big B to grab the Reed opportunity, which instantly gave the chain the second-leading market share in Atlanta and good presence in Columbus, Ga. The price tag: $60 million (Canadian), or about $50 million.

The 85 stores generated $110 million in annual sales, but were losing money. Turning them around and absorbing $5 million in interest costs to finance this deal will hurt Big B earnings this year, according to one analyst *Drug Store News* spoke to at the time of the purchase.

Positive outlook

"Beyond that, the outlook should be very positive. Big B's expansion is coordinated, they use resources well and execute in better-than-average fashion. They can handle it," he added.

Arthur Jones, Big B's executive vice president, told *Drug Store News* that all of the former Reed stores will be renamed Big B by the end of this month.

That purchase came on top of 21 new drug store openings during the fiscal year, including the chain's 200th in Birmingham, Ala., last October. At fiscal year-end, the chain also operated five freestanding home health care stores, and 11 Drugs for Less deep discount drug stores.

The chain has also acquired three stores since year-end that are located in Tallahassee, Fla.

BIG "B" DRUGS
GRAND OPENING

Big B opened its 200th store in Birmingham, Ala., last Oct. 19. The store featured interior neon signage and POS scanning checkouts.

Big B at a glance

Name: **Big B**
Headquarters: **Bessemer, Ala.**
Officers: **Anthony J. Bruno**, president; **Joseph S. Bruno**, chairman
Sales: **$271.3 million**, a record
Store count: **209**, for fiscal year ending Jan. 28, 1989 (204 drug stores and five freestanding home health care centers.)
Average store size: **10,000 square feet.**
Average store selling space: **8,000 square feet**
Market: **Ala., Ga., Fla., Miss., Tenn.**
Highlights: **Bought 85-unit Reed Drug from Peoples, raising store count to 297**

Genovese sets records; eyes 10% new store growth

MELVILLE, N.Y. — Genovese Drug Stores capped a busy and successful year with record sales and earnings.

The family-guided regional chain achieved sales of $366.4 million for fiscal '89, a 17 percent increase over fiscal year '88, and net income rose to $5.5 million. Comparable-store sales increased 11.3 percent this year over last. "It was a good year for us—an exciting year," said Don Gross, vp-marketing.

Genovese's year was highlighted by accolades—it received *Drug Store News*' REX Small Chain Award—and entry into deep discounting with its Great American Drug Store, which opened in October in Carle Place, Long Island.

Chairman Leonard Genovese said he expects the 15,500-square-foot store to generate at least $4 million the first year, with $10 million to $12 million the eventual goal, because of the area's "affluent, dense population."

Including the deep discount venture, Genovese opened seven stores during the year, for a total count of 90 by the Feb. 3 year's end. It plans to open new units at a rate of 10 percent of total store count yearly, with a similar rate for renovations and enlargements.

The chain's 91st and 92nd stores were unveiled on Long Island in March in North Babylon and Yaphank. Four more stores are scheduled to open from late April through June, in Mt. Sinai and West Babylon (Long Island) and Carnarsie and Brighton Beach (Brooklyn).

The chain also significantly expanded its distribution center, from 155,000 to 265,000 square feet, which has "contributed dramatically" to Genovese's in-stock position, said Gross.

In addition, the chain has moved forward with automation: Seven stores were equipped with register scanners by year's end, and plans are to have the majority of stores up on POS in about two years.

All of Genovese's pharmacies are computerized, and the "next generation of pharmacy computers" has been installed in about one-third of those. "They're faster, more accurate and better with third party," Gross noted. Genovese also enlarged and modernized its headquarters computer system.

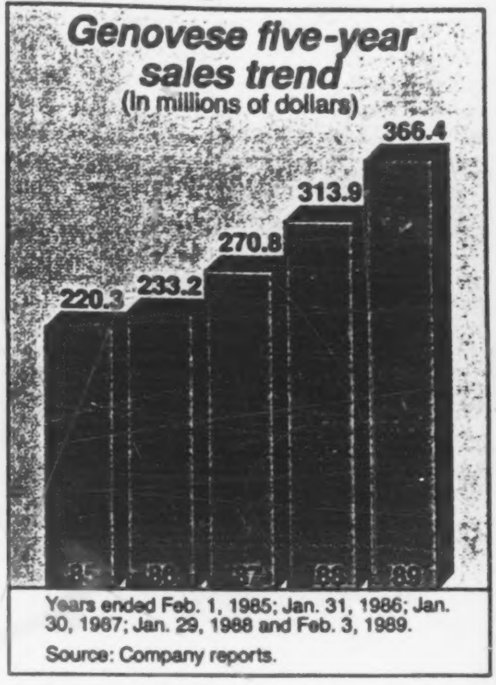
Pharmacy, which accounts for about 24 percent of total volume and generates an average 175 prescriptions daily per store, is increasingly emphasized. Genovese stresses its Gen-Care Health Network in regular fliers and print ads to enhance its health care image.

During 1988, Genovese also stepped up its advertising, coupon book and Christmas catalog programs, as well as special event promotions, such as its Buyers' Best Sale Days. "We've improved what and how we're promoting," said Gross.

Busy cosmetics/fragrances counter in Genovese's Albertson, N.Y., store has trained employee to help customers in selection.

Genovese at a glance

Name: **Genovese Drug Stores**
Headquarters: **Melville, N.Y.**
Chairman and president: **Leonard Genovese**
Sales: **$366.4 million; net income: $5.5 million**
Store count: **90**
Average store size: **12,000 square feet**
Market: **New York, New Jersey, Connecticut**
Highlights: **Achieved record sales and earnings for fiscal year '89; opened its first deep discount store, the Great American Drug Store.**



Years ended Feb. 1, 1985; Jan. 31, 1986; Jan. 30, 1987; Jan. 29, 1988 and Feb. 3, 1989.

Source: Company reports.

Drug Emporium goes public; emphasizes franchises

COLUMBUS, Ohio — With approximately 69 corporate and 99 franchise stores generating an estimated $880 million in sales for fiscal 1989, Drug Emporium is the biggest and one of the brightest stars in the deep discount drug store firmament.

The father and son operation that opened its first store in 1977 went public in June 1988 with an offering of 1.725 million shares at $14.50 per share. (There were 6.3 million shares outstanding as of Nov. 30.) The chain declared a 10 cent annual dividend—its first since going public—in the fall.

Going public enables the deep discounter to raise cash for expansion, remodeling and technological advances.

Drug Emporium's net income tripled from fiscal 1987 to fiscal 1988 and continued strong growth in 1989, increasing 72 percent for second-quarter '89 and 40 percent for the third quarter. Sales were up 14 percent at stores that were open for the full nine months of both 1988 and 1989.

Net sales for the first nine months of fiscal '89 were $629.6 million, of which company-controlled stores generated $294 million in sales and franchise stores, $335.6 million.

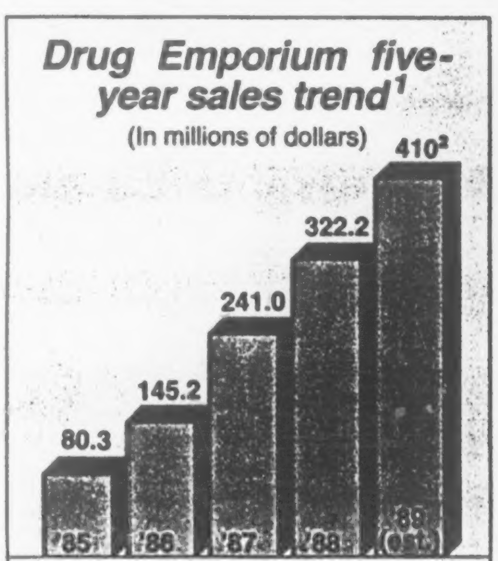
Franchised operations account for nearly 60 percent of total Drug Emporium locations. Twenty-five franchise stores and 11 company units opened during fiscal 1989. Many of the franchise units opened in new markets for Drug Emporium, including three stores in Dayton, Ohio; two in Albuquerque, N.M.; two in Oklahoma City; and one each in Omaha, Neb.; Houston; Appleton, Wisc.; Winston Salem, N.C.; Little

Drug Emporium plans to open 30-40 stores during 1989: 13-16 will be company-controlled and 17-24 will be franchise units.

Vp-franchising Patrick Hiller said the company anticipates strong franchising activity in the Northeast in 1989, citing northern New Jersey, some New England markets and the New York A.D.I. (area of dominant influence for television signals) as likely areas.

In June, Rich Landers was appointed vp-marketing, a new position at Drug Emporium that reflects a perceived need to differentiate between merchandising and marketing as the chain grows. Drug Emporium recently rolled out new in-store point-of-purchase signage to point up its message of everyday low prices and wide merchandise selection.

In addition, the chain switched advertising agencies and developed new television and radio commercials, which are airing in all eight corporate markets and in franchise markets that



The company estimates that total sales from company-controlled and franchised stores will be $880 million this year.

1. Company-co. trolled stores.
2. Fiscal year ended Feb. 29th

Fiscal year ended Feb. 28
Source: Company reports

Drug Emporium at a glance

Name: **Drug Emporium**
Headquarters: **Columbus, Ohio**
Officers: **Philip Wilber, chairman and ceo; Gary Wilber, president and chief operations officer**
Sales: **$880 million (est.), of which company-controlled stores reported $410 million (est.)**
Store count: **69 company-controlled; 99 franchise**
Average store size: **25,000 square feet**
Market: **Ala., Ariz., Calif., Fla., Ga., Ind., Kans., Ky., La., Md., Minn., Mo., N.J., N.M., N.C., Ohio, Okla., Pa., S.C., Tenn., Tex., Va., Wash., W.Va., Wisc.**
Highlights: **Made initial public offering of 1.7 million shares of common stock June 30, 1988; opened approximately 25 franchise stores, several in new markets, and 11 company-controlled stores during its fiscal year.**

Drug Emporiums typically have 10 checkouts, as here. The chain recently began hon-

Fantle's redeems Dart units with service, controls, good taste

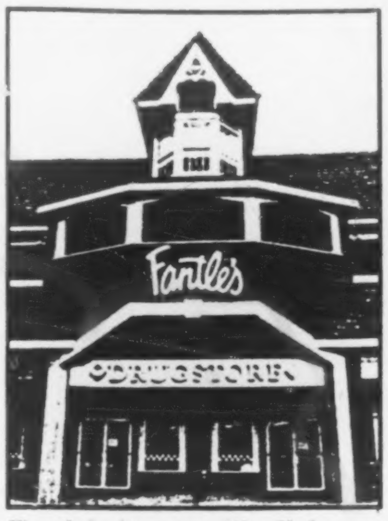
Fantle's Drug Stores (Dart Drug Stores) at a glance

Name: **Fantle's Drug Stores (formerly Dart Drug Stores)**
Headquarters: **Landover, Md.**
Officers: **Sheldon "Bud" Fantle**, chairman; **Jeffrey Fantle**, president
Sales: six-month sales, **$89 million** (ending Jan. 28, 1989); fiscal year-end sales **$218 million**
Store count: **69**, exclusive of **5 Total-Plus deep discount stores** in Richmond, Va.
Market: **Virginia, Maryland** and **Washington, D.C.**
Highlights: **All Dart Drug Stores were renamed Fantle's Drug Stores** in April, except three stores already operating under that name and five Total-Plus stores in Richmond.

LANDOVER, Md. — Dart Drug Stores is history. Sheldon "Bud" Fantle, in Month 17 since gaining control of the chain, has renamed it Fantle's and unleashed a multi-pronged program to breathe new life into the 69-store operation.

Competing against better-resourced Peoples, Rite Aid, Giant, Safeway, Drug Emporium and F&M, Fantle's niche will be customer service, high taste levels in store decor and merchandise, a reemphasis on pharmacy, and improved operations and merchandising controls. These directions bowed in Fantle's prototypes, which opened last November.

All stores will eventually be remodeled after the "boutique-like" settings of the prototypes, which included broad drug and H&BA sections, fashionable cosmetics and major presentations of home office supplies, a Hallmark gift center, beer, wine and gourmet food. Fantle expects renovations to be completed within three years at a cost approaching $10 million.



Fantle's stores will all be remodeled in this upscale format within three years.

Another goal management considers vital is raising pharmacy's share of sales to 20 percent from its current 14-percent level. Pharmacy computers will be installed chainwide by June. All stores have POS and will eventually be equipped with scanning.

To help build shopper loyalty, Fantle's has launched The Good Neighbor Fund, an aggressive charities program where the chain donates 5 percent of the amount on redeemed sales receipts to charities and nonprofit groups.

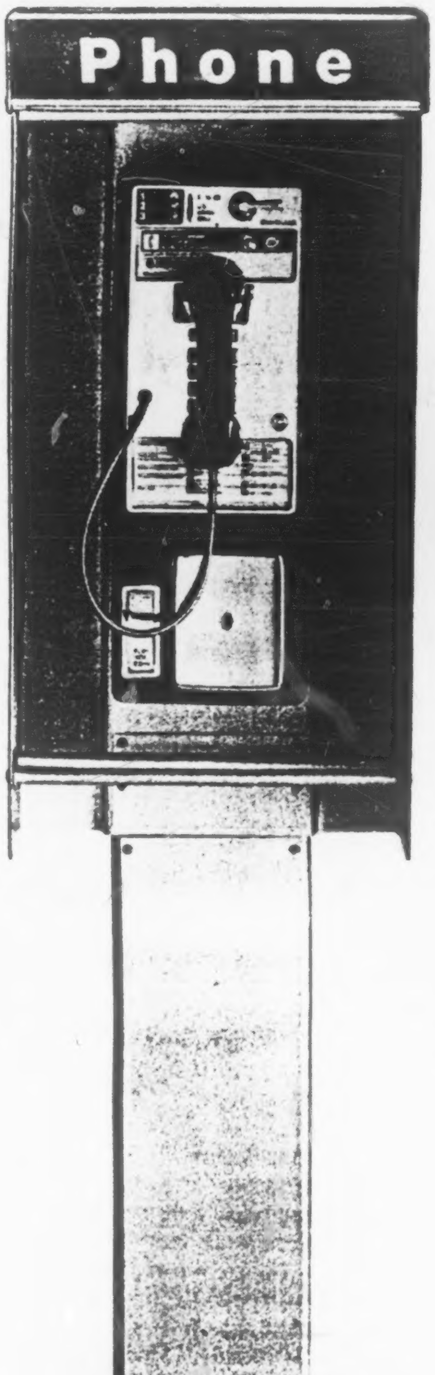
These efforts are meant to improve the chain's fiscal fortunes. Total sales in the fiscal year ended July 31, 1988 were $218 million, down from $265 million in the year-earlier period. Net sales for the first six months of fiscal '89 fell 25.6 percent, to $89 million from $119.7 million, in the same half a year ago. The fiscal '89 decrease was attributed to the eleven leasehold interest sold in 1988, the liquidation of home center-related merchandise, and the deemphasis of certain categories which were highly promoted the previous year.

Fantle's reported a net loss of $9.4 million for the first six months of fiscal '89, compared to a loss of $6.4 million for six months of fiscal '88. Cash flow from operations has been negative through January 1989.

However, the sale of the leasehold interest for $30.5 million in cash during '88's third and fourth quarters enhanced Dart's working capital and liquidity. And an estimated additional $5.2 million in cash was generated by a rights offering to stockholders and a private placement.

A management team, largely recruited by Bud Fantle and president Jeffrey Fantle, is moving forward with ambitious plans to make Fantle's a more formidable competitor. To help fund them, a fiscal restructuring that would defer interest payments and improve cash flow may be offered this spring through Kidder Peabody.

"Every step we take is delicate," Bud Fantle said at a press conference announcing the chain's new strategies. "We've inherited a great debt, but we feel with our advisors, we can buy back the debt and reduce our obligations. We're working on a master plan, and we have a better than average chance of being able to do what we'd like to do on a restructuring basis."



AT&T
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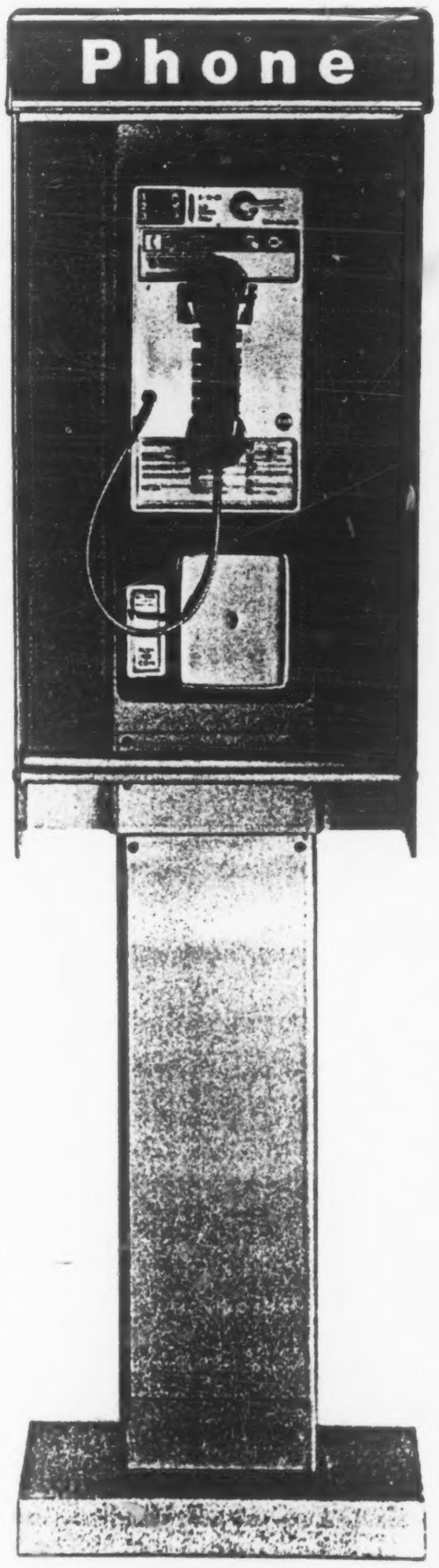

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Annual Report Part I: SuperRx/Medicare-Glaser profile

SupeRx remains undaunted by far-flung store network

PHOENIX, Ariz. — SupeRx Corp. is still a small drug chain by today's standards, and it is still a new company, in existence just a little over two years as an offshoot of Kroger Co.'s former drug store holdings. From all appearances, though, the company continues to behave as though it were many times its present size.

SupeRx has been on the acquisition trail almost from its inception, when former Kroger veteran Gerald Wolken led a buyout team that purchased 47 SupeRx drug stores from Kroger in 1987. The bulk of those stores were in the Phoenix market, with additional units far to the east in Georgia and Alabama.

Wolken was formerly president of Kroger's SupeRx division, but his $26.5 million deal represented only a small part of Kroger's divestiture program for its SupeRx and Hook drug stores.

Nevertheless, Wolken and his management team have pursued an aggressive and far-reaching growth plan from the beginning. Early on, SupeRx began acquiring additional units to build market base, including three former Walgreens stores in Alabama and seven other units in various locations. The chain also picked up three home health care centers in Arizona.

First year of operation

In its first full year of operation, SupeRx also developed and opened a new store prototype with a racetrack design, and began a rapid spruce-up program for all stores featuring a new color scheme and decor package. The renovations, including a new, boutique look and a more prominent store location for cosmetics, helped power sales to an estimated $100 million-plus in the fiscal year ended Feb. 27, 1989.

It also wasn't long before the company began a search for bigger game. SupeRx lost to Rite Aid in an unsuccessful bid for the Begley Co. last year, but by autumn hooked St. Louis-based Medicare-Glaser for $18.2 million. The deal, consummated in late March, gave SupeRx a strong base of operations in the Midwest and a toehold in Connecticut.

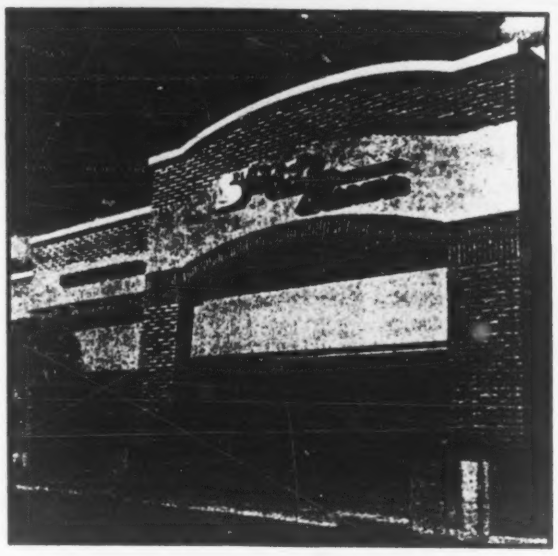
Wolken has indicated the company will aggressively pursue market share in St. Louis against market-leading Walgreens, both through improved store merchandising and operational programs, and through fill-in expansion in that city.

Early this year, SupeRx also entered the key Florida market by snaring five Florida Choice food stores and 13 liquor stores from Kroger. The stores, centered in the Naples area, extend the chain's reach in the Southeast, where it also has 12 stores in Alabama and

SupeRx executives appear undaunted by the chain's enormous geographic dispersion. Said Jim Jumpeter, vp-administration and chief financial officer, "It could be a problem if we weren't careful, but. . .all the officers here came from big chains operating in broad markets."

SupeRx Corp. at a glance

Name: **SupeRx of Arizona, Georgia and Alabama Corp.**
Officers: **Gerald Wolken,** president-ceo; **Jim Jumpeter,** vp-administration-cfo.
Sales: **$100 million** (estimated)
Store count: **100 full-line drug stores, 43 small retail pharmacies, five food stores, seven optical centers, five home health care centers, 14 liquor stores.**
Market: **Southwest, Midwest, Southeast, New England.**
Highlights: **acquired Medicare-Glaser; acquired Florida Choice units; extended store remodeling program.**



SupeRx operates in widespread markets, thanks to its discipline and big chain mentality.

Love's®
Love's BABY SOFT
Love's BABY SOFT
COLOGNE SPRAY
COLOGNE SPRAY
Love's
THE #1 TEENAGE BRAND
HAS A WHOLE NEW LOOK IN 1989.

NEW, SOFT, ROMANTIC IMAGE
More contemporary packaging on shelf for 2nd Quarter promotion.

DOUBLE THE MEDIA IN 1989
Heavy-up advertising on TV, Radio and in magazines will reach 70% of the 12-18 target audience an average of 12.9 times in 1989.

NEW, HARD-HITTING ADVERTISING
We're sure to attract girls' attention because the subject is boys!

EXCITING CONSUMER PROMOTIONS
2nd Qtr.—Beverly Hills Shopping Spree Sweepstakes.
3rd Qtr.—"Love's Song Sweepstakes" Radio Offer.

TIE-IN TO THE NEW LOOK OF LOVE'S WITH EXCITING MERCHANDISE PROMOTIONS LIKE THIS:

PREPACK #36000 BODY MIST 1.5 OZ. MULTI-FRAGRANCE COUNTER DISPLAY.

- Includes all 5 Love's fragrances.
- Backed by heavy 2nd quarter advertising.
- Features the Beverly Hills Shopping Spree Sweepstakes.
- Available for shipment March 1 through May 31.

Contact your local MEM representative or call MEM headquarters, Northvale, New Jersey (201) 767-0100.

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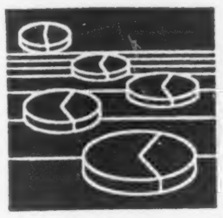
MSI's sales growing at twice industry's pace

Medicine Shoppe at a glance

Name: **Medicine Shoppe International**
Headquarters: **St. Louis, Mo.**
Officers: **Jerome F. Sheldon**, president and ceo; **Mitchell Yanow, M.D.**, chairman
Sales: **$386.2 million**
Store count: **755**
Average store size: **1,072 square feet**
Market: **Franchises in 48 states**
Highlights: **Comparable store sales gains were twice the industry average, daily Rx sales per store were 20% higher than chain drug averages and 40% higher than independents. MSI increased OTC shelf space 50%.**



ST. LOUIS — Medicine Shoppe International has increased sales 15 percent this year to $386.2 million, about double the rate of increase of the drug store industry overall. With 755 stores currently in its network, Medicine Shoppe is the only drug retailer with operations in 48 states.

Medicine Shoppe opened 39 new locations during fiscal '88, a slow rate that had already picked up by the end of the period and is expected to reach its historic pace of 80 to 100 new stores in fiscal '89. The openings include newly franchised independents, converted formats and newly opened sites.

Jerome F. Sheldon
president and ceo

Medicine Shoppe expansion pace is picking up again to close to 100 annually.

Converting existing stores to Medicine Shoppe formats is a new approach for the operation. Conversions take half the time to accomplish, and with many independents seeking to gain HMO, PPO and other third-party business, Medicine Shoppe is betting that many will be seeking the tutelage that conversion can afford, president Jerome Sheldon said.

"Chain stores and MSI consider a purchase opportunity for different goals: the chains want to get the store records and close it down," said Jeff Atkinson, vp-marketing and strategic planning. "We want to keep the store open."

The franchise operation has also instituted a new program under which successful, existing sites are bought and converted, then resold to a qualified buyer.

The operation, which some call a chain, while others label a franchise, has its eye on the aging market. Over 60 percent of Medicine Shoppe's business is generated by the over-45 market, which places MSI well to take advantage of the market created by the Medicare Catastrophic Act.

MSI's new managed health care group will be aggressively chasing HMO, PPO and other third-party business. New business has been obtained in 50 percent of MSI's operating area through the group's efforts.

Sales of OTC items have added to MSI's profits. New store layouts, which increase OTC shelving 50 percent, will further capitalize on the popularity of private label products.

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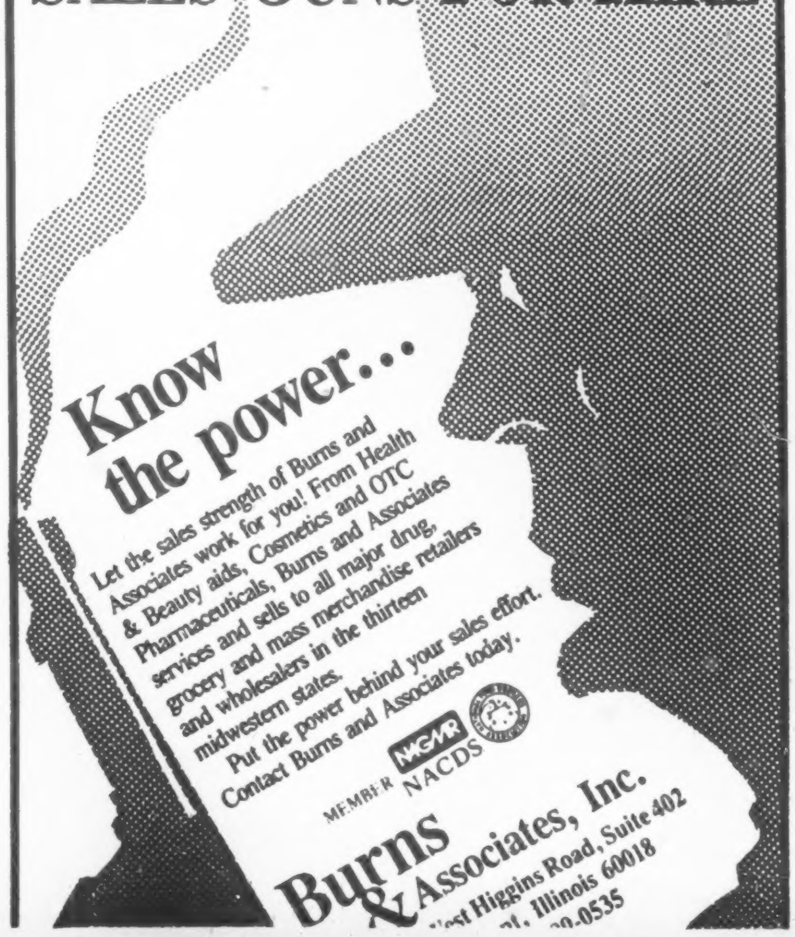

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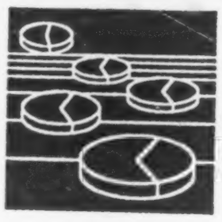
Super D's new leaders bank on multi-pronged growth strategy



MEMPHIS — Super D Drugs embarked on a fresh start after 17 managers purchased the drug stores in an estimated $55 million leveraged buyout last September.

The inside team bought the 101 stores from giant food wholesaler Fleming Co. after Fleming had purchased Super D's parent, the food wholesaler Malone & Hyde (M&H). Fleming wasn't interested in keeping a drug retail business, although it viewed the drug side as a profitable part of M&H.

Headed by Lasseter

That opened the door for the buyout, for which funding was lined up by Vestar Capital Partners, which has an equity position along with the managers. Don Lasseter, a pharmacist and former M&H executive vice president, became the new company's chairman and ceo.

Super D executives said the business will have more cash for growth now that it is independent from M&H, which had gone private in its own LBO in 1984.

The amount of LBO debt that M&H had allocated to the drug division was higher than the debt tab the drug company now carries as a separate entity, a company source explained.

There had been few funds left over for growth once the drug stores had paid their dues for the parent's buyout.

A year ago, Super D envisioned that a revamped franchise program would be the best—and least costly—growth route. It had planned to enlist up to 100 small independent operators throughout its markets as franchisees. The strategy could hold down capital spending, yet allow the drug side to preserve market share.

Plan was modified

That plan has been modified now into a multi-pronged growth strategy that curbs franchise growth somewhat, but will emphasize construction of new corporate-owned stores. Super D owns stores under the Super D, Petty's, Consumers, and Pay-Rite names, as well as Ike's deep discount stores.

Building from its base of 14 franchise stores operating as of last month, franchise management plans to open 10 to 12 units a year. It also plans to foray into Kentucky and Arkansas for the first time, and pursue a plan to franchise its apothecary-style Consumers stores.

One of the first new company-owned Super D's, meanwhile, is scheduled to open later this month in downtown

The growth plans—combined with new capital improvements for stores' interiors and exteriors—should help safeguard the strong drug store and pharmacy share Super D has held in Memphis; Springfield, Mo.; Little Rock, Ark.; and Jackson, Miss.

Super D also remains strongly committed to its Ike's deep discount format, and plans to open three Ike's, all with pharmacies, in the next year and a half.

Super D at a glance

Name: **SuperD Drugs, Inc.**
Headquarters: **Memphis, Tenn.**
Officers: **Don Lasseter,** chairman and ceo; **Henry Beattie,** executive vice president, cfo.
Sales: **$165 million,** fiscal year ended Aug. 27, 1988.
Store count: **60 SuperD's, 38 Petty's, three Ike's.**
Market: **Tennessee, Missouri, Mississippi, Arkansas**
Highlights: **A SuperD management team bought the SuperD drug stores from food wholesaler Fleming Co. for an estimated $55 million in September 1988.**

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